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THE BANKER

VOL. LXXXVII No. 271

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VOL. LXXXVII AUGUST 1948 No. 271

SIR ANDREW HERRICK ROWELL

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A Banker's Diary

THE Chancellor in the past few weeks has done his best to allay the widespread fears, discussed in some detail in THE BANKER last month, that the Government is weakening in its policy of disinflation. Three firm speeches from Sir Stafford Cripps show that he, at least, is determined to stand his ground. The third, delivered in mid-July, was the theme for a Press conference specifically devoted to this subject. The force of the earlier pronouncements had been somewhat impaired by the fact that other Ministers were simultaneously announcing concessions seemingly inconsistent with the main line of policy—notably the decision to maintain a larger number of houses under construction next year than was contemplated in the last revision of the investment programme. But the Chancellor's latest reaffirmation, coming a fortnight after the housing announcement, does at least show, first, his own conviction that disinflation will not be unduly impeded, and, secondly, that the rumoured differences of view within the Cabinet have not been strong enough to force him to modify his own attitude.

Disinflation Reaffirmed

The latest speech was a wholly unexceptionable and frank statement of the case for enlisting monetary and fiscal policies in the drive against inflation, and as a means of relieving the pressure on the physical controls. Every one of the Chancellor's arguments, indeed, has appeared many times in these columns in the past eighteen months. The process of disinflation, the Chancellor pointed out, was bound to show itself in a slackening of demand for non-essentials, in reduced speculation, a decline in the profitability of the black markets, and in evidence of over-capacity in marginal trades. These processes, he said, have only just started; " excessive monetary demand still tends to divert to the home market goods which might otherwise be exported ", even though some industries are beginning to run into difficulties. This process, inevitably involving hardships for some, must go on until the key industries secure the labour they need. " We are met by the choice between the temporary hardships inflicted on some thousands of people . . . and the much greater hardships that would otherwise be inflicted on the whole nation. . . . If we cannot maintain our exports high enough . . . hundreds of thousands will be thrown out of work ".

This particular argument was firmly underlined by the latest manpower figures, which unexpectedly showed a further, and more substantial, decline in unemployment in the five weeks to mid-June—by 16,000, to 274,000. Yet the detailed analysis, which related to May, revealed hardly any progress towards the vital targets. This reinforces the Chancellor's retort to those who have been prophesying that disinflation would prove to have been overdone. There is no danger, he said, that the contraction might go too far; it could readily be stopped, if necessary, because of the " enormous unsatisfied demand for . . . investment goods " and because, in the last resort, the Government could boost consumption spending by releasing post-war credits or by reducing taxation. But " there is no prospect whatever, with our continuing need to export . . . of our having to resort to these devices ".

The Coal Board's Task

To attempt to draw from the 255 pages of the National Coal Board's report for 1947 even provisional conclusions about the success or failure of nationalization would be quite unreasonable. Even the loss of £23¼ millions, on which the critics have fastened their main attention, is, in broader perspective, only an incidental feature of a year which included vast administrative changes, the fuel crisis (it was Mr. Shinwell, not the Board, who lost the country £200 millions of exports) and the concession of the five-day week to the miners (into which, again, the Board was pushed by political decisions already taken, against its own judgment of the proper time for the change). It is important, then, that the main criticisms of the Board should be reserved for matters arising from its own responsibility, and important, too, that its painstaking, defensive, and sometimes over-detailed account of its tasks in 1947 should be scrutinized for signs of a determined policy to produce more coal more cheaply in future, without laying all the stress on the shortcomings of its first year.

It is fair to credit the Board with a positive achievement of higher output last year. It was rushed into the five-day week, and its attempts to promote co-operation on the part of its employees and to attract new recruits will cost £62½ millions in a full year. This policy, as the Board recognizes, was a speculation, and it is obviously disappointed that the odds for success have turned out to be much longer than it first thought. Throughout the report, stress is laid on the Board's responsibilities as a public employer, ready to meet " just claims " but plainly sorrowful that employees had failed to fulfil their part of the bargain. One mark against the Board, in its first year, must therefore be its failure to build its own moral authority and leadership ; too often in its report it talks merely on terms of equality with the union, whereas it should talk for the whole public.

The public interest in cheaper and better coal is recognized in the report. Cleaner and better graded coal is promised ; a more rational system of prices is being evolved ; a start has been made on the preliminary work for a long-term development plan. On these questions the report lifts the curtain for the future, but in nothing like the detail into which it enters on the events of 1947.* Yet surely these are the crucial matters. If nationalization is to have meaning, it is in the wise investment of public money in new development ; and wise investment implies some body of principles by reference to which choices are made between different schemes, decisions taken about the prospective outputs to be expected from the different divisions and areas during the next quarter of a century, differential prices fixed for different qualities of coal by the exercise of some monopolistic sixth sense, and the right guesses made about the coal requirements of British industry and the prospects for the export trade.

On some of these problems—they dwarf in scale and complexity even those which the Board had to tackle last year—a start has been made. But they are discussed at large in the report, instead of in detailed and specific terms. What promise of output per manshift can be expected from particular schemes? What are the capital and operating costs likely to be ? If depreciation and interest charges will cost 5s. a ton of output from new collieries, what will be the average cost of their output, assuming the present level of wages ? At

* Some of that detail, in the matter of the Board's banking arrangements, may be of particular interest to some of our readers; it is reproduced on page 121 of this issue.

present, costs in the different divisions range from 33s. a ton in the East Midlands, to 53s. a ton in Wales and Kent. The Board recognizes that " if a pit or a district is running at a loss, despite every effort to make it pay its way, then there is a case for altering the level of output or the price at which the coal is sold ". This is a sound economic principle, and if the Board allows it to be obscured by having regard to " social costs " (which are the Government's affair, and not its own) its effectiveness will be seriously, and perhaps disastrously, weakened.

Second Quarter's Gold Loss

THE drain on Britain's gold reserves during the second quarter of this year, though well above the rate envisaged in the " Economic Survey ", proved to be rather smaller than had been feared. Net expenditure of gold and dollars amounted in the three months ended June 30 to £107 millions, or £40 millions less than the alarming figure for the first quarter. This comparison may not, however, be a true reflection of the rate of decline in day-to-day outgoings, because the figures for the early part of the year were swollen by the fact that some sterling area countries withdrew their hard currency allocations at one stroke. The total expenditure for the six months, at £254 millions, proved to be £58 millions larger than the " Economic Survey " estimate, for the figure of £222 millions mentioned there took no account of purchases from the International Monetary Fund. These purchases, as a detailed table on page 126 shows, amounted to £26 millions.

Of the past quarter's expenditure, £6 millions was financed by the final drawing on the Canadian credit and by a small purchase of dollars by India from the I.M.F.; at the end of the period the first refund of dollars was received under E.R.P.—£22 millions of the £75 millions which has been allocated for that period by way of grant. Hence the total gold stock at June 30 stood at £473 millions—£79 millions less than at March 31, and obviously close to the danger point. When, however, the remainder of the quarter's E.R.P. refund has been received, the total, despite current outgoings, should be above £500 millions. This, in the Government's view, is the minimum level which must be maintained throughout the E.R.P. period, and import policy will be adjusted accordingly. Further import cuts will almost certainly be unavoidable, but will not be decided upon until the prospect of E.R.P. aid next year can be assessed.

Segregating E.R.P. Sterling

THE arrangements for segregating the sterling counterpart of the grant portion of E.R.P. have duly confirmed the persistent contention in these columns that this device, as such, will make no difference to the domestic credit situation, and will affect neither the gilt-edged market nor the volume of debt repayment by the Government. The arrangements are set forth in some detail in the E.R.P. agreement, which provides that the sums to be set aside shall be, not the actual sterling proceeds of the re-sales of Marshall goods or dollars, but the sterling equivalent of the actual dollars expended or paid over by the United States Government, which will from time to time notify the appropriate amounts to the British Treasury. Thereupon, the sterling will be paid into a special account in the name of the British Government at the Bank of England, and shown in the Bank Return as a subdivision of " Public Deposits ".

These funds may be used, by agreement between the two Governments, for debt redemption (with particular reference to Government debt to the central or commercial banks); for meeting the local expenses of the E.R.P. administration; for financing such explorations or projects (contemplated, as possibilities, in the agreement) as the two Governments may decide; and, up to 5 per cent., for U.S. "stock-piling" purchases of materials originating in the United Kingdom or in colonial territories participating in the agreement.

The original intention of this device of segregation was to ensure, so far as technical arrangements could do so, that E.R.P. recipients did not make the receipt of aid an excuse for not taking steps to balance their budgets and counter their domestic inflation. Actually, the mere fact of segregation could not guarantee the pursuit of anti-inflationary policies, even though the U.S. Government insisted upon the use of the funds for debt redemption. In Britain, a surplus for debt redemption is assured by the Chancellor's policy and by the continuing deficit on the balance of payments, not by this device of segregation. Indeed, if the U.S. Government were to insist that the funds are used for projects not already included in the nation's investment programme, these expenditures would actually increase the inflationary pressures. At least for the present, however, the Americans have agreed that priority should be given to redemption of floating debt. This will not, however, involve any greater degree of debt redemption than would have occurred—given the same volume of Marshall Aid—without any of these complicated arrangements. The redemption, so far as it derives from the external deficit, will take place in just the same way as it has done in the past—although at a declining rate—by the use of the sterling counterpart of the *total* overseas deficit on current account. Hence, on the dates on which the book transfers are made to the special account, the Government will actually have to create debt (though nominal debt) for the purpose, since the actual sterling proceeds will already have been used in redemption, and so will not be available for the special account. The balance of that account will then be rapidly reduced, after each transfer, by a double-entry cancellation—of the deposit on the one hand, and of the special nominal debt on the other.

Agreement with India

THE financial agreements with India and Pakistan cover three years and significantly stop short of the date—July 15, 1951—when Britain is due to start paying service on the American loan. In the context of the sterling balances, the significance of that date lies in the waiver clause in the American loan agreement, which requires a proportional scaling-down of releases on sterling debts due to sterling area countries if the waiver of interest on the American loan is invoked. The currency of the interim agreements with India and Pakistan must, therefore, stop short of the date beyond which some contingent provision would have had to be made to ensure conformity with this arrangement. Such a condition will have to be applied eventually to all sterling debt settlements, from which it follows that 1951 will be a year of great house-cleaning in Britain's external finances.

The agreements with India and Pakistan remove some £276 millions from the accumulated sterling balances of the two Dominions. This is the sum agreed as due to Britain for the sale of British military stores and fixed assets and for the capitalization of pensions to British civil and military personnel,

which are now a charge on the British Exchequer. It is a considerably smaller figure than the estimates previously in circulation and was clearly arrived at by tough bargaining. It hides no veiled scaling down of the accumulated sterling balances, which now total about £1,100 millions. The arrangements for releases are generous. Previous releases made to India, namely £65 millions in August, 1947, and £18 millions in February, 1948, have evidently not been used, since India entered the period of the new agreement with about £80 millions freely available in her No. 1 account. This will suffice for the first year of the agreement. In each of the two subsequent years India will have the right to draw up to £40 millions from accumulated balances to be transferred to the No. 1 account. Over the three years of the agreement, therefore, India will be able to draw down accumulated balances by £160 millions in order to meet current payments. Her needs in hard currency are provided for up to June 30, 1949, by an allocation of £15 millions from the sterling area pool. In addition to this, India will have at her disposal the equivalent of her direct hard currency earnings and of her drawings from the International Monetary Fund. The permissible sterling releases for Pakistan will amount to £15 millions for the three years, while the twelve month's allocation of hard currency is £5 millions.

These arrangements appear incongruously generous on Britain's part. It is evident that the proposed hard currency allocations could not have been envisaged had Marshall Aid not been in prospect. What, then, becomes of the undertaking that no Marshall dollars shall be syphoned off to countries other than the sixteen? If that obligation is to be honoured in the spirit as well as in the letter, Britain's arrangements with her sterling area creditors should conform to the pattern that would have had to be applied if there had been no Marshall Aid.

Stricter Security Control

THE limits within which non-residents of the sterling area may switch their sterling securities have been drawn still narrower by the latest exchange regulations. These provide that a non-resident may not now sell his sterling security except for the purpose of exchange into (*a*) a security issued or guaranteed by the British Government or the Government of Northern Ireland and redeemable not less than ten years from the date of purchase or (*b*) securities quoted on a recognized stock exchange. In the latter case, the security to be bought and the security to be sold must fall within the same group; for this purpose all securities have been divided into thirteen categories approximating to the classifications of the stock exchange official list. Furthermore, within each category of security dealings the investor must operate within the same currency area throughout.

The effect of these new rules has been virtually to kill the market in sterling securities in overseas centres, notably New York. Two influences had fostered the growth of that market. First, foreign holders of sterling securities, confronted with the impossibility of repatriating their capital from London, sought other means of converting their holdings into cash—albeit at a discount. Secondly, the existence of that discount gave South American Governments, notably Chile and Brazil, a chance to buy back their sterling debt on extremely cheap terms. Before the Exchange Control Act came into force last autumn, the New York market in sterling securities was based on American-owned

stocks because the Bank of England refused to recognize transfers between persons in different currency areas. Thereafter, such transfers were permitted, with the result that a large proportion of European-owned sterling stocks, predominantly mines and oils, gravitated to New York—providing dollars for their European owners and attractive investments (at $2 to the £) for the American buyers. The first British reaction, recorded here last month, was to refuse to licence the import into the United Kingdom of sterling bearer securities whose ownership history disclosed a transfer, after May 1, 1947, between persons in different currency areas. This should theoretically have reduced the volume of transactions in the New York market, but the danger of false ownership declarations remained. The latest British action largely gets over this difficulty by imposing two strict and additive conditions which in practice virtually immobilize all foreign-owned securities. The New York market has been brought to a standstill and the discount on British Government securities is now nearly 56 per cent., equivalent to a rate of about $1.75 to the £. The houses engaged in this type of transaction are naturally annoyed at the resulting loss of business. The reasons for the new regulations are, however, apparent. There is first the British reluctance to see a massive change in the ownership of claims on current account sterling (represented by dividends and interest) from soft to hard currency countries. Secondly, the British control could hardly remain indifferent to the evidence that American buying of shares in British countries producing scarce raw materials abroad has been with a view to acquiring outright control.

Argentina's Multiple Currency

THE past month has been decidedly eventful in the sphere of Argentine trade and exchange policy. The hopes of an early rescue of the reserve situation by lush and uncritical expenditure of off-shore Marshall dollars in Argentina have vanished. Some such expenditure there will be, but the E.C.A. in Washington is laying down strict conditions on such matters as quantities and prices. As a result, Argentina has had to take measures to arrest the serious diminution which has been taking place in her gold and dollar reserves. The correctives have taken two forms : a harsh cut in import licences, especially from the dollar area, and a depreciation by about 20 per cent. in the free rate of exchange of the peso. The cut in dollar imports has been accompanied by a very partial easing of import licensing from sterling countries, affecting, in particular, whisky, aircraft, motor cycles and mechanical toys from Britain.

The main purpose of the depreciation in the free peso rate was stated to be the encouragement of foreign capital, presumably from the United States. It has been argued that such capital would be encouraged to take advantage of the more advantageous rate at which it would be convertible into pesos. The inducement was further sweetened by a guarantee that there would be no restrictions on the withdrawal of capital brought into Argentina since the beginning of 1948 or on the remittance of profits earned by such capital.

From the point of view of British capital invested in Argentina the only effect of the new regulations on remittances has been to offer the prospect of a considerable loss on exchange. The remittances will have to be made at the depreciated free rate. This will apply to the remittances which have been piling up on British account in Argentina for the past year, during which no transfer permits have been granted.

The Marshall Plan in Action

THE shouting and disputing over the Marshall Aid agreement is over and the time has come to work the Plan. On the achievements of the next few months depend the prospects of a second annual instalment of aid. In twelve months' time a Republican administration, as well as a Republican legislation, will probably be installed in Washington. They may still be prompted by the communist bogy to vote another instalment of aid for Europe. But aid received on no other ground than that ought surely to turn sour in the recipients' stomachs. The case for a second instalment will surely be judged in the United States by what was achieved with the first. The Americans are a severely practical people and are more averse than most from pouring their money down rat-holes. They will want tangible results for the first year's operation of the E.R.P. before they back a second year with some billions of dollars. What chances are there that sufficiently spectacular results may be achieved ?

In assessing these chances it will be useful to look first at the Economic Co-operation Agreements which define the conditions upon which the assistance is granted, and secondly at the work that has been done in Paris to give impetus to the programme of European economic co-ordination and to the effort of self-help on which the success of the whole scheme and certainly the continuation of U.S. aid will depend.

The Economic Co-operation Agreements negotiated and now signed between the United States and each of the recipients of Marshall aid are satisfactory and workmanlike documents. It would be unwise and unfair to judge the American attitude towards the whole problem of European reconstruction by unofficial descriptions of the first draft of these treaties presented by the United States. It is safe to assume that, like all first drafts, this was an opening gambit and, furthermore, that like all such documents emanating from Government Departments in Washington, it was a lawyer's draft. It can also be assumed that the consequent shock it gave to official opinion in Europe, and particularly in Britain, was severe—much more severe than was warranted at that early stage in the negotiations. The task of softening the outlines of this first draft and of negotiating with the United States the master text which was later applied to all the bilateral agreements, fell to an international team composed of representatives of five of the recipient countries. It can be said without offence or pride that the bulk of the work on the recipients' side fell to the British representatives. It was they, headed by the new Ambassador, Sir Oliver Franks, who fought the battle for Europe. Some of the others were too inexperienced in negotiation with the United States to realize at what point mere doctrinaire punctiliousness might become not only impracticable but destructive of the general purpose of the agreement. Others were too eager for dollars and in too desperate a need to have much taste for the careful weighing up of the conditions on which that aid was to be given. Let it be added that in the long negotiations that took place in Washington the American representatives were quick to sense the weight and validity of arguments brought forward by the other side, and that the course of the discussions proceeded comparatively smoothly.

The agreement signed with Britain is in large part a " spelling out " of the

commitments undertaken and demanded in two prior acts: the convention for European Economic Co-operation entered into by the sixteen recipient countries on April 16 last, and the Economic Co-operation Act passed by the U.S. Congress on April 3. The Convention set out the general obligations assumed by the participating countries, both individually and collectively, to ensure the success of the joint recovery programme. The Act enumerated in its Section 115 the various conditions that would have to be incorporated in the agreements with each recipient country. The main comment that must be made on the translation of these conditions into the Economic Co-operation Agreement is that it leaves Britain, and each of the other recipient countries with which bilateral agreements have been signed, master in its own house. The operative phrase is that in taking action to implement the various commitments set out in the agreement, " the Government of the United Kingdom will use its best endeavours ". Sir Stafford Cripps, in introducing the agreement to Parliament, made it clear that " His Majesty's Government is the sole judge of how it should use its best endeavours and as to what measures it shall adopt ". Nothing could more clearly show that the rights of sovereignty have been fully safeguarded.

The conditions so qualified are those already made familiar by the long discussions of the European Recovery Programme during the past year. The most important, but necessarily that least susceptible of precise definition in the agreement, is the undertaking to promote the development of industrial and agricultural production on a sound basis and to achieve the production targets established through the Organization for European Economic Co-operation. There is no criterion by which success or failure can unmistakably be judged. But this is, beyond doubt, a fundamental condition on which the critical eyes of Congress and the Economic Co-operation Administrator in Washington will be focused; and American official and unofficial opinion will devise its own yardstick to measure the progress which European nations make in realizing the objectives of the Recovery Programme.

The commitments on the rate of exchange are merely that a " valid rate " shall be established or maintained—and Sir Stafford Cripps made it perfectly clear in the debate that in relation to Great Britain the operative word in the text was " maintained ". There is an obligation to balance the budget, but this is not to be taken as a demand that it shall be balanced from year to year, but only over long periods. The other conditions refer to commercial policy, to the restraint of restrictive business practices, and to the use of assets in the United States. On the question of commercial policy and restrictive practices, the standard of behaviour is provided by the much diluted Havana Charter of the International Trade Organization. On the very delicate subject of the use of assets in the United States, the official interpretation of the agreement by the Chancellor of the Exchequer was that the U.S. Government considers that the measures now in effect in the United Kingdom adequately fulfil the obligations under the agreement, so that there is no question of compulsory disposal of such assets. This very brief description of the basic conditions and of the interpretative gloss put on them by official spokesmen in this country reveals an element of danger in the necessarily loose and informal manner in which they are expressed in the agreement. The official interpretations given by the Chancellor may reflect the views of the present U.S. Administration, but it does not by any means follow that they will equally

faithfully reflect those that will be held by the Administration in power after the next Presidential elections.

These general commitments are those which Britain would in any case have endeavoured to implement. There are a few other specific but highly important points scattered through the agreement to which the same force of logic and self-interest do not apply. The first is the problem of local currency deposits to be made against Marshall Aid grants. It is provided that 5 per cent. of these are to be reserved for the use of the United States. Part of this money will cover the administrative expenses incurred by the United States in connexion with the European Recovery Programme, but presumably the more important part will go to finance the stock-piling of strategic raw materials needed by the United States. It would be churlish to resent the suggestion that this small proportion of the local currencies deposited against Marshall Aid grants should be made available for stock-piling purposes. But honesty compels one to say that if the dollar shortage is to be a chronic problem which Europe will have to face for years to come, the solution of that problem will be postponed to the extent to which the United States uses Marshall local currencies for operations which otherwise would have earned Europe additional dollars. It should be added, however, that this is one of the few specific advantages which the United States will derive from the European Recovery Programme and that for this reason its value must be weighed not so much in terms of its economic impact on Europe as of its psychological impact on American opinion.

Another aspect of the Economic Co-operation Agreement to which critical attention should be drawn is the clauses relating to the investment of American funds in Britain and the Colonies. There is, in the first place, the provision in the Economic Co-operation Agreement about guarantees by the United States of the convertibility of the profits on investments made in Europe by United States citizens. It has already been stipulated that such guarantees will not apply to an amount in excess of the actual capital invested. If, however, they have to be implemented for investments in the sterling area, the sterling which will be taken over by the Economic Co-operation Administration is to be recognized as the property of the Government of the United States and will, therefore, in effect become convertible sterling. This means that a privileged position will be given not only by the United States but by the British Government to any sterling arising from the profits of such American investments in British territories. The amount may be considerable—provisional allocation of dollars, amounting to about $300 millions, has already been authorized—and if the investments are made astutely and on equity terms they may add their own considerable contribution to the future dollar gap.

The agreement also requires the British Government to give U.S. citizens and corporations the right to develop scarce materials in the territories controlled by it and to do so " on terms of treatment equivalent to those afforded to the nationals of the United Kingdom ". The grant of " most-favoured-nation " terms to U.S. investments cannot be resented. But the purposes for which those investments are authorized will need to be carefully watched, especially as the presumption is that such investments will benefit from the E.C.A. guarantee. The fact that a commodity is in scarce supply in the United States is not in itself a sufficient reason to justify large-scale colonial development. The need for care in working this clause in the agreement is

emphasized, moreover, by the looseness of its drafting. The text requires that " an agreed percentage of such increased production [increased by U.S. capital development] be transferred to the United States on a long-term basis in consideration of assistance furnished by the United States under this agreement ". This apparently does not mean that the additional products must be transferred to the United States free of charge and in consideration of E.R.P. aid, but that the readiness to make such additional goods available to the United States is itself to be part of that consideration. That, at least, is the interpretation put on this clause by the British authorities, though there is nothing in the agreement or its explanatory annex to substantiate it. Only time will show whether this interpretation stands the test of a change of administration in Washington.

All this may appear to be crabbing criticism on minor points of detail. But it is right that it should be made at this stage and not, as was the case in the Anglo-American loan agreement, when one of the parties has been driven into a corner from which escape is possible only by virtually tearing up the whole agreement. It must, however, be admitted that the essential provisions of the Economic Co-operation Agreement have well withstood the most baleful scrutiny. Its essence is in keeping with the original generous impulse that gave it birth ; its looseness, which could be a weakness and even a source of subsequent misunderstanding, may alternatively give it the elasticity required to make it the charter of economic recovery in Europe ; it undoubtedly merited the overwhelming vote by which it was ratified in Parliament—even though that vote reflected a conviction that the proffered aid was indispensable.

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What of the translation of this charter into action ? Aid from the United States has started to flow. The first cash payments have been made in reimbursement of dollar expenditures incurred by the recipient countries since April 3, when the European Recovery Programme officially began. Regular allocations are being made by the Economic Co-operation Administration in Washington. Negotiations are now proceeding on the difficult question of E.C.A. loans, as distinct from grants. It is the declared policy of the British Government not to accept loans unless they are for specific projects which in themselves will earn the dollars required for their servicing and eventual repayment. If this wise condition is obeyed it may prove difficult to find enough suitable projects to absorb the proportion of the total E.R.P. allocation now specifically earmarked for loans. Indeed, if the alternative would be to assume loan liabilities for which there are no solid prospects of repayment, it would be better—if the United States is prepared to agree—not to utilize the loan appropriations fully, and thus to keep the total flow of Marshall Aid below the figures voted by Congress.

The recipient countries have begun their own part of the task of reconstruction by planning and working, each in its own way and with varying prospects of progress, towards the stabilization of its finances and the increased productivity of its industry and agriculture. The progress on this front has admittedly been very uneven. In the sphere of monetary and budgetary stabilization, in particular, the last few months have revealed some glaring contrasts and contradictions. In their joint effort of economic integration the recipient countries have launched the Organization for European Economic Co-operation in Paris. The form of this permanent organization is a compromise—unsatis-

factory but perhaps inevitable—between the American and the British views of what it should be. It is not the all-powerful international organization for giving orders to the Marshall countries which the Americans, supported by the French, wished it to be. Neither does it wholly conform to the initial British idea of making it a meeting place of strong, virtually plenipotentiary, national delegations served by an efficient but purely administrative international secretariat.

The functions of the O.E.E.C. fall into three broad categories. First, it is there to assemble information about the recipient countries' needs and to answer all the questions that pour in from the E.C.A. in Washington. These functions, which it has been performing from the start, have, however, so overwhelmed this young and untried organization in a welter of paper work as to leave its staff very little time for the exercise of the wider responsibilities expected of it. The second group of functions, which certainly falls into this broader category but is closely linked with the first, is the actual allocation of dollars set aside in Washington. On this point a fundamental battle has been fought between the British and American administrations, the Americans wishing to place the onus of allocation on O.E.E.C., the British expressing a preference for placing it firmly on the shoulders of E.C.A. in Washington. As was to be expected, the Americans, with their usual French support, have carried the day. The members of O.E.E.C. will before long have to emerge from the forms, questionnaires and statistics in the abysses of which they are now immured, to take part in the battle of allocating dollars and commodities among the sixteen nations.

The third group of functions of the O.E.E.C., and in many respects the most important, is the general task of integrating the European economy. The terms of reference are as vague as they are vast; but there can be no mistaking the importance which the Americans attach, both on grounds of principle and tactics, to the achievement of specific progress on this particular front within the next few months. Every American pronouncement on E.R.P., from Mr. Marshall's first speech to the wording of the Economic Co-operation Act and all the harangues that have come from representatives of E.C.A. in Europe, have held up the political and economic disunity of Europe as the prime cause of Europe's weakness; conversely, they have pointed to the unity of currency, the absence of tariffs and the freedom of movement of capital and people within the large area of the United States as the prime cause of the prosperity of that country. Unless part of the American way of economic life, as thus conceived, is introduced into Europe in the next year, there will be no second instalment of Marshall Aid.

There is grave doubt whether enough can conceivably be done in any short period to satisfy the Americans on this score. Some façade of integration might perhaps be erected purely for this purpose of edification, but if all is hollow behind it, the pretence will not escape the vigilance of the Congressional watchdog committee which has been set up to scrutinize how Europe uses the substantial sums voted for its reconstruction.

The work so far undertaken on this plane covers no more than the very tentative and preparatory investigations of the customs union study group and the discussions by the financial committee on the problem of restoring intra-European trade and payments. On the customs union front, very little specific progress can be expected during the next year. On the contrary, the

trend at the moment is in reverse ; Belgium and the Netherlands, with their diverse economies, are beginning to discover the real practical difficulties of abolishing their common customs barrier and are now inclined to postpone the date on which the next step in their economic union, namely, the equalization in their excise duties, is to be taken.

The problems of intra-European trade and payments have, by their urgency, commanded high priority in the wider policy discussions of O.E.E.C. The new scheme, discussed in some detail in last month's issue of THE BANKER, has yet to see the light of day. The United States, however, has become sufficiently convinced of the need to unfreeze the mechanism of intra-European payments as to authorize supplemental allocations of dollars specifically for the finance of trade within Europe. This is being done by the extension of off-shore purchases in European countries.

The approach to this problem has revealed some of the basic difficulties to be overcome in any progress towards integration of the European economies. The first is the problem of price disparities. Sooner rather than later this will call for the establishment of the " valid rates of exchange " which the E.C.A. require. The second is the understandable determination of all European countries to sell their inessentials as well as their essentials, to offer grapes and azaleas as a condition of selling steel, " to say it with flowers ", as the procedure is now generally described. This, in its turn, raises all the fundamental issues of European integration and in particular the fundamental problem of ultimately covering Europe's dollar gap. The Americans, not perhaps fully appreciating the size and persistence of that gap, are inclined to favour those who want to keep " the frills " in intra-European trade and to argue, as Mr. Robert Garner of the World Bank said recently in London, that these are the frills which make civilization—not troubling to inquire further whether the poor relation in Europe can now afford them, necessary though they are for the fuller life for which all members of the European family repine.

As for the wider aspects of integration, the most economic and efficient siting of industry, the avoidance of redundant units, the rebuilding of the Ruhr and the dovetailing of the whole industrial basin of Western Germany into the economy of Europe—even the fringes of these problems have not yet been approached. For the tackling of such fundamental issues there appears to be all too little relish in Britain, as elsewhere in Europe. This reticence and reluctance can be understood. They derive from a thousand years of history and of evolution of the principle of nationalism, as well as from particular industrial and economic structures, which, though more recent in origin, are yet inseparable from the accustomed social fabrics. In Britain, moreover, there is behind it the special problem of dual loyalty—to Europe and to the Commonwealth. But let there be no mistake, unless these inhibitions can be at least partially overcome, unless the seemingly insuperable difficulties are in some measure solved, Europe will find itself, in April, 1949, without another Marshall dollar. The immediate results of that deprivation would be a good deal more unpalatable than those of the measures of integration from which Europe to-day is shrinking. Perhaps Europe still needs the lash of yet greater adversity before being prepared to muster itself for the conscious and voluntary effort of self-help which will qualify it for continued assistance from the United States.

The German Currency Reforms

By S. Schattmann

AS the international tension in Berlin has forcibly demonstrated, it would be a mistake to conceive the German currency reforms merely as monetary measures aiming at the reduction of purchasing power to a level commensurate with the volume of production—although that was and is their direct objective. But, even though the specifically political aspects are left out of account, to appreciate the importance of these reforms one must see them as an integral part of a comprehensive economic reform. In the post-war German economy, with its large amount of excess purchasing power, its severe shortages of all types of consumer goods, its flourishing black market and its resulting break-down of ordinary distribution, the price mechanism had lost all significance as a directing force in the economy. As a result, the currency had ceased to be a store of value, and as a standard of exchange it served only for a limited range of rationed commodities. It was obvious that so long as these conditions persisted, reconstruction both economically and politically would be impossible.

The Potsdam decisions provided for the economic administration of Germany as a unit. But the West and the East, in this as in other respects, seem to have used the same words in a different meaning. Sir Cecil Weir, General Robertson's economic advisor, in a broadcast speech introducing the West German currency reform to the German public, made the crucial point that the refusal jointly to administer food production frustrated from the outset the hope of restoring Germany's economic unity. It is difficult to see how a uniform fiscal policy, including a measure such as the currency reform, could be carried out without a uniform economic policy. The Western Powers have seen their main task in reviving the German economy and leaving the decision about its future structure to the German people themselves, while the Soviet Military Administration in their part of Germany considered it an essential part of democratization to transform the Soviet zone into a centrally planned economy, often closely modelled on the Soviet pattern.

Every radical currency reform has inevitably some harsh features, and this certainly applies to the one carried out in Western Germany. But the scheme also contains provisions—so far, they are still of only a general character—for adjusting the financial burdens and preventing debtors from profiting through the conversion of liabilities. In a word, the Western zone currency reform is an economic measure. On the other hand, the currency reform in the Soviet zone, while serving the same economic purposes, is a means of reshaping not only the economic but also the political and social structure of the zone. After all, the Socialist Unity Party, which enjoys the confidence of the occupation Power, has expressed repeatedly its intention of rebuilding the zone on the pattern of the People's Democracies.

The Western German currency reform was carried out by the promulgation of three Laws following one another within a single week, which ended on June 26, during which there was a moratorium. The first Law, the Currency Law, introduced the new currency, the Deutsche Mark (Dm.), and promul-

gated the conversion of notes and coins at a rate of 10 Reichsmark for one Deutsche Mark. The second Law, the Issue Law, established the Bank of German States as the Bank of Issue and introduced reserve requirements for all banks. The last step in the currency reform proper was taken with the issue of the third Law, the Conversion Law, which announced the all-important conversion rate of 10 : 1 for bank accounts, liabilities, insurance policies, etc. In addition, a comprehensive tax reform made far-reaching changes in direct and indirect taxation. Its purpose was to adjust taxation, which had in many cases been very high indeed, to the new situation in which money has become a scarce commodity. The final phase of this reform will be the equalization of financial burdens. In accordance with the instructions of the Military Governments, a Law must be promulgated by the German authorities before the end of the year. It is to draw a line under Germany's war losses and to spread the burden, which undoubtedly will be heavy, evenly.

The old currency—Reichsmark, Rentenmark and notes issued by the Allied Military Governments—ceased to be valid as from June 21. The only exceptions were coins and small notes up to one mark. They remained in circulation for the time being at one-tenth of their face value.

As a first measure, every inhabitant of the Western zones was able to exchange 60 Rm. into 60 Dm. Of this sum, 40 Dm. were paid out at once and the remaining 20 Dm. will probably have been paid out by the time this article appears in print. All business enterprises received a special business allowance of 60 Dm. per member of staff up to the limit of their account.

The State Governments and other public authorities were supplied by the State Central Banks with funds to meet their requirements for one month.

Salaries and wages were to be payable in the new currency and at the same amounts as previously. The German Ministers of Finance in the various States had suggested to the Allies that wages for the period June 1-20, the day of the currency reform, should be converted at a 17.5 per cent. valuation. This suggestion was rejected by the Allied authorities as socially unjust. Entrepreneurs were told that they could ease their liquidity position by releasing hoarded stocks. Judging by the development since, this method has proved successful. For the first time for some years, the ordinary consumer now sees in the shop windows goods such as clothing, shoes, household and other wares.

According to the Conversion Law, Reichsmark accounts—accounts of individuals and firms, except those of public authorities, dissolved Nazi organizations and the Reichsbank—are to be converted into Dm. at a rate of 10 : 1. One-half of the Dm. amount is to be credited to a " Free Account " and one-half to a " Fixed Account." A decision about the latter's release is to be reached by the end of September. After consulting the German legislative authorities, the Military Governments may authorize a further payment of 10 per cent. from the old account. It appears possible, judging by a statement made by one of the U.S. financial experts, that that amount may be utilized to facilitate the equalization of financial burdens in order to prevent an excessive drain upon the none too large volume of liquid funds.

The *per capita* quotas and the business amounts are to be set off in full against the converted balances. This means that old accounts are to be reduced before conversion by Rm. 540 per person, and by Rm. 10 for every Dm. 1 business amount paid. This measure, although no doubt financially sound, reacts severely on the small saver. It is to be hoped that under the

scheme for the equalization of burdens ways may be found of reducing the harshness of this step.

From the old account, Rm. 5,000 could be released at once for conversion. For business and professional men, the amount could be raised to Rm. 10,000 if the Revenue Office did not raise objections. Firms were entitled to the conversion of their total balance against the production of a certificate from the Revenue Office or the Labour Exchange stating that they employed more than twenty workers. Even after a general release of the fixed accounts by the authorities, the Revenue Office must still agree to any withdrawals.

All accounts of public authorities are considered void. The Law lays down the general principle that public expenditure must be covered by current receipts, and the Military Governments expressly reserve the right to intervene if this principle appears to be threatened. Credits may be used only by way of drawing on future revenue. The cancellation of all State revenue accounts is probably to be explained by the different fiscal policies applied in the British and French zones on the one hand, and in the U.S. zone on the other. While high subsidies were paid to the Ruhr mines in the British zone, and high occupation costs had to be met in the French zone, leaving little or no surplus in the revenue accounts, States in the U.S. zone were able to accumulate considerable funds. This unequal position might have been of some significance during the first few difficult months. It was evidently thought wise to make a clean sweep.

At the time of the currency reform the three Military Governments held about Rm. 4 milliards, accrued from the distribution of imported foodstuffs. According to the latest information, the total amount of Deutsche Mark placed at the disposal of the Military Governments in the course of the currency reform is Dm. 800 millions—Dm. 300 millions in cash and Dm. 500 millions in deposits.

Like bank balances and cash, liabilities, too, have been converted at a 10 : 1 rate ; these include mortgages, loans, mortgage bonds, life insurances and contributions to building societies. Should another release of 10 per cent. from the old accounts be authorized, creditors will benefit in the same way. The German authorities have been instructed to take the requisite measures to utilize debtors' profits for the equalization of financial burdens. The following have been converted at par : wages, salaries, rents, pensions and other regularly recurrent payments falling due after June 20 ; a number of specified contractual liabilities including inheritance and marriage settlements ; and all liabilities entered into on June 19 and 20. The Law contains certain provisions to mitigate hardship. The Courts may reduce or grant respite for payment if settlement of the liability in Deutsche Mark or within the contractual period cannot be fairly expected of the debtor. Wages, salaries, taxes owed, fees owed to public authorities, fines and payment obligations under public law are excluded from the jurisdiction of the Courts.

Social insurance benefits are to be paid to the same amount in Deutsche Mark as hitherto in Reichsmark. The State Governments have been authorized to reduce both insurance benefits and contributions until the passing of new social legislation by the German legislative organs.

Certain changes have been made in the Labour Law. Employment contracts concluded before June 21 which under the existing regulations could not be terminated before September 30 may now be terminated at six weeks'

notice. Where the salary exceeds Dm. 800 monthly, the notice is four weeks.

A word about the position of United Nations nationals may be of interest. Persons who acquired United Nations citizenship after May 8, 1945, or companies and corporations which were not established by that date, are not considered U.N. nationals as defined by the Law. Generally speaking, Reichsmark liabilities owed to U.N. nationals, like those of other persons not domiciled in the currency area, will be converted at 10 : 1. This does not apply, however, " if the creditor refuses to accept settlement offered or effected under this Law, or if he objects to the conversion into Deutsche Mark, as stipulated in the Law, by informing the debtor to that effect before August 20, 1948 ". A U.N. national who thus objects must wait until the drawing up of a final settlement in the peace treaty.

Banks and savings banks have been affected particularly severely by the cancellation of the Reich debt and the conversion of other debts. Their deposit liabilities were reduced at one stroke by 90 per cent., but the main part of their assets—investment in Reich securities—vanished altogether. Nostro accounts within the currency area have also been declared void. To rebuild the structure of bank assets the following measures have been taken. The State Central Banks credit the banks with an amount equal to 15 per cent. of their total converted current accounts and 7½ per cent. of their converted deposit and savings accounts. The State Central Banks in turn are credited by the Bank of German States with an amount equal to 30 per cent. of their converted deposit liabilities and their holdings of small notes and coins as at June 21. For the remainder, the banks will be allotted "Ausgleichsforderungen" —that is to say, book claims against the State concerned or, in the case of the Bank of German States, against the three zones, which the banks include in their balance sheet. These claims bear interest at 3 per cent. per annum. Banks may apply for the allotment of "Ausgleichsforderungen " only to the extent to which their remaining assets prove insufficient to cover their liabilities, including an " appropriate capital ". In other words, before taking recourse to public funds the banks must first fully mobilize their own assets.

The allotment of an "Ausgleichsforderung " to a commercial or savings bank may be made dependent upon the fulfilment of conditions imposed by the Bank Control Authority. A bank may be instructed to obtain appropriate capital by issuing new shares or accepting new partners, or by fusing with another bank. It may be compelled to go into liquidation and to transfer its assets and liabilities to another bank.

A novel feature in German banking is the introduction of reserve requirements on the Federal Reserve model. They will be fixed by the Bank of German States. The following table shows the minimum and maximum rates and the present requirements in force.

RESERVE REQUIREMENTS (per cent. of monthly averages)

	Current Accounts			Deposit and Savings Accounts		
	Min.	Max.	Present	Min.	Max.	Present
State Central Banks	12	30	20	—	—	—
Other Banks (including Post Cheque Offices and Post Savings Banks)	8	20	10	4	10	5

State Central Banks keep their reserve accounts with the Bank of German States and other Banks with the State Central Banks.

According to unofficial figures, the liabilities of commercial banks and savings banks have declined from around Rm. 165-170 milliards to Dm. 11.1-12.5 milliards, while assets have fallen to Dm. 3.7-4.1 milliards. These figures suggest that no less than about Dm. 8 milliards of assets are to be created in the form of "Ausgleichsforderungen".

The Issue Law states that the note circulation shall not exceed Dm. 10 milliards. Issues in excess of that amount, which must be limited to Dm. 1 milliard at any given time, require the consent of a three-quarters majority of the Central Bank Council and at least six States. The present issue limit is equivalent to at least Dm. 220 per head of the population, a considerably higher rate than obtained in pre-war times. In 1913 the circulation was Rm. 89 per head, in 1924 Rm. 68 and in 1933 Rm. 86. Any comparison, however, must take into account that prices have risen considerably since those days, and that there has been an important change in the public's liquidity preference. In view of the generally uncertain situation, the demand for cash is much larger now. The all-important question is whether the public will hoard the new Dm. notes, whether they will be swallowed up by the black market or whether they will be paid into the banks. Up to now the banks have complained that cheque and transfer transactions have been on a limited scale; but this is to be expected so shortly after the currency reform and in view of the great desire for liquidity. It seems that the success of the policy of keeping entrepreneurs short of liquid funds, thus compelling them to release their hoarded stocks, has been an important factor in laying the psychological foundation of the new currency. According to the most recent reports, most prices continue to fall, while productivity is estimated to have risen on an average by 30 per cent., and in certain industries even by more than that.

The first official figures of the volume of the new money in circulation relate to the issues at July 3, and are as follows:

(In Milliards Dm.)

CASH:	*Per capita* quotas		1.9	
	Authorities—			
	withdrawn	1.0*		
	re-deposited	0.3	0.7	
				2.6
DEPOSITS:	Business amounts		0.5	
	Authorities		2.6	
				3.1
	Total circulation			5.7

* Including 0.8 drawn by Military Governments.

As the total of Dm. 5.7 milliards includes savings and deposit accounts, it does not wholly represent purchasing power which is immediately effective. On the other hand, it will be increased, through the conversion of liabilities, by about Dm. 10 milliards, half of which will remain in "Fixed Accounts". To deduce from the comparatively large volume of deposits that a process of stagnation was already under way on July 3, as some pessimistic German observers have done, appears ill-founded. What seems to be nearer the truth is that there had not been any hoarding and that the velocity of circulation had quickened.

The currency reform initiates a deflationary trend and therefore demands

a strict rationalization in production, distribution and consumption. Sooner or later a serious danger will arise. The longer the deflationary process lasts, the greater will be the progressive contraction of the entire economy. To avoid this danger, a comprehensive investment policy will be required. The measures taken under the currency reform necessarily give restoration of liquidity priority over medium and long-term investments. In fact, one of the main complaints made by German employers is that the bias of the currency reform legislation is weighted too heavily in favour of consumption. They fear that insufficient funds will be available to maintain production. Liquid funds are to be injected into the economy with the help of three months' trade bills and, for the period up to August 8, by the use of promissory notes (Solawechsel). No current account credits may be granted before that date. It is difficult to say whether German fears are justified that the trade bill, an instrument not very popular in the past, especially with industry, will not be fully effective in providing liquid funds. The production process is still slow and it may well be that ninety days are not sufficient for the funds to circulate.

In view of the great demand for liquid funds and their scarcity at the present time—the available funds of the State Central Banks are estimated at Dm. 2 milliards—interest rates had to be high to keep the demand down. As practically every firm is in need of accommodation at the present time, it appears fairly likely that its high cost will not provide any strong deterrent to borrowing. Inclusive discount charges for trade bills range from 7½ per cent. per annum to 9 per cent. per annum according to amount; and the rate for advances is as high as 9.6 per cent. per annum and even 12 per cent. per annum where credit limits are exceeded. The special promissory notes, for which a maximum of Dm. 150 millions has been fixed, cost 9½-10 per cent. p.a. Another reason for these high costs of credit is the greater risk arising from uncertain economic conditions. Some of the firms established since the war may find difficulty in meeting their obligations under the new conditions.

Interest allowances on short and long-term deposit and savings accounts vary from 1 to 3 per cent. according to type of account. These quite favourable rates are meant to act as an incentive to saving. The question may be asked whether the banks' profit-earning capacity will be great enough to pay these rates, considering that their "Ausgleichsforderungen" carry only 3 per cent. interest and that other sources of profits are strictly limited.

The greatest problem facing the German economy to-day is the difficulty of providing real resources and finance for medium and long-term investment. In view of the great need for capital replacement and the general change-over in the economy, the demand for investment funds is bound to be considerable. Domestic demand having been pent up for many years, a sufficient level of saving can hardly be expected. Moreover, so long as the deflationary pressure persists, all administrative measures to force saving would be harmful. Indeed, without an influx of foreign capital, Germany's investment problem does not appear to be soluble. Marshall Plan deliveries are of the greatest importance, but even they are not likely to suffice. German economists have suggested that the Dm. counter-value of Marshall Plan deliveries should not be used to reduce the National Debt or to meet occupation costs, but should be made available for long-term investment through the channels of special investment banks. It may be mentioned here that the Allies, without commenting on such views, have issued orders for the setting up of a Reconstruction Bank.

Side by side with the currency reform proper, other measures have been taken which can be mentioned only in passing. Controls have been eased and prices decontrolled except in main foodstuffs, raw materials, and to certain extent in textiles. To assure a fair distribution of the available textile supplies, a clothes rationing system has been introduced. A comprehensive tax reform has been put into practice which reduces income tax on the average by about one-third, with the largest reliefs in the lowest brackets. The revenue loss arising from changes in direct taxation is to be made up by increases in indirect taxes.

The Soviet Measures

The fundamentally different character of the currency reform in the Soviet zone has been very clearly put by a leading economist there, who said that the Western reform aimed at reorganizing purchasing power but not fortunes, while the Eastern reform had been designed largely from a social point of view, introducing a complete reorganization of property conditions.

The *per capita* quota of notes was fixed at Rm. 70 and converted at 1 : 1 without being debited to the old account as in Western Germany. In addition, note holdings up to Rm. 5,000 were converted at the rate of 10 : 1, but those in excess of that figure will be released for conversion only after it has been established that they have been lawfully acquired. All cash holdings of firms, organizations and institutions were exchanged at 10 : 1. Current accounts will be converted at 10 : 1 for amounts up to Rm. 5,000, and above this limit will be scrutinized in the same way as notes. Preferential rates for the conversion of current accounts are as follows: Funds of authorities and the accounts of publicly-owned enterprises—producing now about 50 per cent. of the zone's industrial output—are to be converted at 1 : 1; funds of the five State-owned insurance corporations at the rate of 5 : 1 and of the social insurance institutes at the rate of 2 : 1. Special arrangements were made to enable private firms to pay their wages for the first fortnight after the currency reform. The capital or reserve funds of the State-owned German banks will be converted at 1 : 1, as will party and Trade Union funds as at May 1 last. Amounts credited after that date will be converted at 10 : 1. Earnings of war profiteers and profits derived from speculations will be confiscated and so will the accounts of " war and fascist criminals ".

Special conversion rates have also been laid down for savings deposits. For deposits up to Rm. 100 the conversion rate is 1 : 1; up to Rm. 1,000 it is 5 : 1, after deduction of the first Rm. 100. Savings deposits over Rm. 1,000 up to Rm. 5,000 will be converted at 10 : 1, and accounts exceeding Rm. 5,000 are subject to scrutiny.

All current and savings accounts established before May 9, 1945, which have been frozen since that date, will be converted at 10 : 1 and debentures issued in their place; all balances exceeding Rm. 3,000 being examined before conversion. Terms of issue and redemption of the debentures have not yet been announced. Accounts of prohibited organizations, enterprises dissolved as part of Germany's war potential or of " Fascists " or war criminals will be annulled. Accounts of foreign nationals, in common with persons not resident in the Soviet zone, will be converted in the ordinary way and will remain blocked. This applies to current, deposit and savings accounts established before and since May 9, 1945.

Internal debts and liabilities entered into before the implementation of the

currency reform will remain unchanged and will not be subject to conversion except in the following cases: loans granted under the land reform will be converted at 5 : 1 and insurance policies at 3 : 1. All prices, wages and salaries and taxes remain unchanged. Germany's internal debts created before May 9, 1945, all her foreign debts, and the liabilities of the closed banks will remain unaffected by the currency reform.

The German authorities have been instructed to draft amendments to the existing tax legislation to ensure a redistribution of war burdens and to safeguard the earnings of the working population.

If one views the Soviet zone currency reform purely as a monetary operation, one is struck by the many important exemptions from the conversion, thus leaving a considerable volume of purchasing power intact. In addition to the aforementioned publicly owned enterprises which account for about 50 per cent. of the zone's total output, there are also the Soviet-owned corporations which are not mentioned in the currency reform decrees and whose share in total output is estimated at roughly 25 per cent. The Soviet zone authorities do not seem to be unaware of the still very considerable volume of purchasing power, as against the volume of output, and have issued several orders enjoining all undertakings and administrations to bank all cash, except small strictly circumscribed amounts, and to settle all liabilities by cheque or bank transfer. Cash transactions are to be confined to wage payments, retail transactions and petty cash expenditure. The banks have been instructed to supervise the compliance with the measures ordered.

Currency Measures in Berlin

The currency reform measures applied by the Western Allies in their sectors of Berlin differ at a number of points from those in the Western zones. While in the Western zones one-half of the converted amount remains in a Fixed Account, no such restriction exists in Berlin. Nor will the *per capita* amount of Dm. 60 be debited to the old account. Nostro accounts of banks will be converted 10 : 1, in contrast to the practice in the Western zones. Berlin banks are not in need of supplementing their assets, as they did not hold Reich securities; their assets were acquired only after the surrender. No decision has as yet been reached about the accounts of public authorities. The Bank of German States will not directly operate in Berlin. A Currency Commission is acting as the co-ordinating authority and is organizing a State Central Bank for the Western sectors. It is also reorganizing the banking system, as the branches of the Berlin Stadtkontor, the Municipal Savings Bank and the People's Bank in the Soviet sector may no longer pay out to persons domiciled in the Western sectors.

In view of the existence of two currencies in Berlin, wages and salaries paid hitherto in Reichsmark are now to be paid in one or the other of the new currencies at a ratio to be determined from time to time. At present 25 per cent. is paid in Deutsche Mark and 75 per cent. in Soviet zone currency. The latter must be accepted in the Western sectors in payment of controlled foodstuffs, rents, fares, electricity, taxes, etc. Thus persons living in the Western sectors and working in the Soviet sector can now meet the greater part of their expenses in Soviet zone currency. Not surprisingly, the black market quotations of the Deutsche Mark, whose price at one time was 25 Soviet zone for one Deutsche Mark, has now settled at between 3 : 1 and 5 : 1.

Will Bank Deposits Fall ?

BY mid-1947, when we surveyed the experience of the banks during the first half of that year, it had at last become reasonable to ask whether the long phase of credit expansion was ending and whether a reverse movement might set in. Twelve months later these questions still cannot be answered categorically. Most bankers do indeed feel sure that the halting-point has been reached, and many, who have long expected to lose part of the war-time additions to their resources, are prone to regard the Chancellor's new disinflationary policy as evidence that the process is about to begin. But some of the arguments commonly employed in support of this view reflect a too naïve approach to the complexities of monetary analysis under present conditions. Discussion of the effects of Marshall aid—the counter-inflationary aspects of which figure largely in the minds of most bankers—has been a particularly fruitful source of fallacious reasoning, as several recent articles in THE BANKER have tried to demonstrate. There may be reasons for expecting some change in the secular trend of bank deposits ; but, if so, they do not rest upon such half-truths as the proposition that the sterling accumulating in the E.R.P. " special account " will join with the budget surplus to provide means for a large redemption of Government debt.

To say that the trend of bank deposits in recent months has belied the predictions of impending decline would not, however, be fair. The record surplus of Government revenue during the main tax-gathering season early this year produced, as expected, an almost phenomenal contraction of credit ; the " net " deposits of the clearing banks fell during January and February by fully £220 millions, or by 2 per cent. per month—more than twice the rate of decline which caused the ex-Chancellor so much satisfaction twelve months previously. It is true that this year, as last, the effects of the revenue season have been more than counterbalanced in the later months of the half-year ; aggregate net deposits at June 30 were actually £54 millions above the peak of £5,682 millions reached last December (in the corresponding period of 1947 they rose by £7 millions). But the strong resumption of the upward trend has been due largely to the quite special influences of the Argentine rail purchase and the redemption of the 3 per cent. Conversion Loan, which in March raised bank deposits by £150 millions.

The first of these operations necessitated, as it was always apparent it would do, provision of a roughly corresponding amount of sterling by the British authorities. Less than one-third, however, of the £150 million purchase price was in the event provided from Argentina's own accumulations of sterling (employed, directly or indirectly, in loans to the British Government against floating debt). To save Argentina from further reducing her currency reserves, the remainder was provided by an advance payment by the Ministry of Food against its meat contract. Both portions were therefore financed by additional borrowings from the banking system ; but because of the odd distribution of funds among the banks* (pending the delayed distribution of the funds by the recipient companies to their stockholders) the authorities financed themselves mainly by special bill issues to the banks primarily con-

* A high proportion of the initial disbursement was received by Glyn Mills & Co., whose deposits in March were roughly doubled.

cerned and relied only moderately upon Treasury deposit receipts, which would have been the normal method of finance under present conditions. The choice of this novel method underlines the special character of the operation.

The fact that bank deposits rose in March by no more than the amount of the Argentine disbursement is also significant. It demonstrates the technical effectiveness of the official efforts to mop up the surplus credit produced by the repayment of the residual £100 millions or so of 3 per cent. Conversion Loan remaining in outside hands on the redemption date. And, since the nominal amount repaid on March 1 was £300 millions, it also shows that the preparatory official purchases of the called bonds must have been very large —which makes the big decline in bank deposits in January and February the more remarkable. For it should be noted that at this period demands for bank advances were breaking all records—a tendency which to some extent was plainly the obverse of the record inflow of tax revenue. To the extent that tax-payers were financing themselves, directly or indirectly, by drawing upon their overdraft facilities, the use of the Government's revenue surplus to repay debt to the banks produced no net contraction of credit.

The tracing of such cross-influences as these affords a useful object lesson in the dangers of jumping too readily to conclusions about the effect of any particular factor, considered in isolation, upon the banking position. But this analysis does not exhaust even the main factors. The key to the puzzle of why bank deposits in these early months fell so very steeply despite big purchases of the maturing loan and despite large demands for advances certainly lies in the rapidity with which Britain was running down its external reserves, thereby providing the Government with a large counterpart in sterling. The force of this factor—and sometimes even its existence in the domestic credit equation—is still often overlooked, despite repeated efforts to demonstrate its importance. Many people, even in the City, perceive its effect only when it emerges tangibly as a specific " gift " from overseas, by way of Lend-Lease or Marshall Aid. It deserves to be said again that the immediate monetary effects of E.R.P. grants or loans are indistinguishable from those of any other methods of financing the current external deficit. If only this fact were firmly grasped, it would be at once apparent why the advent of Marshall aid is no reason of itself for expecting a fall in bank deposits. So far as this vital external influence upon the domestic credit structure is concerned, the only question to be asked is whether the aggregate deficit is rising or falling. Despite

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Marshall aid, Britain's external deficit in 1948, including that aid, will surely be less than the £675 millions of 1947 (or was it £575 millions?—the official estimates in effect gave two figures, on different definitions), and less, it is to be hoped, in the second half of 1948 than in the first. Hence the Government's ability to repay domestic debt by this means is declining, though less rapidly than had been hoped. The external factor, including Marshall aid, is therefore giving less and less relief to the domestic banking system, and if there were no offsetting net decline in demands on the banks for purely domestic finance, the effect would be to *raise* the level of deposits, perhaps substantially.

	End-June Comparison				Half-year Average Comparison		
	June, 1947§ £mn.	June, 1948§ £mn.	Change on Month £mn.	Change on Year £mn.	Average of Jan./June, 1948§ £mn.	Change on Jan./June, 1947 £mn.	Change on Jan./June, 1947 %
Deposits ..	5658.0	5954.5	+ 85.8	+ 296.2	5816	+ 230	+ 4.1
Net Deposits*	5446.0	5735.8	+ 93.8	+ 290.1	5617	+ 215.3	+ 4.0
Cash	464	492.4	+ 4.4	+ 28.0	479	+ 11.1	+ 2.4
	8.21	*8.27*			*8.25*		
Call Money ..	451	473.2	+ 19.2	+ 22.5	460	+ 25.0	+ 5.7
	8.0	*8.0*			*7.9*		
Bills	672	658.8	− 63.9	− 12.8	746	+ 67.5	+ 9.9
	11.9	*11.0*			*12.8*		
T.D.R.s ..	1330	1360.5	+ 113.0	+ 31.0	1229	− 160.7	− 11.5
	23.5	*22.8*			*21.1*		
Investments ..	1479	1478.1	+ 1.3	− 1.1	1481	+ 26.5	+ 1.8
	26.2	*24.8*			*25.5*		
Advances ..	1119	1340.1	+ 15.5	+ 220.7	1294	+ 246.7	+ 23.6
	19.8	*22.5*			*22.3*		

§ Italic figures beneath assets totals are percentages of published deposits.
* After deducting items in course of collection.

The net effect of these other factors is much more difficult to estimate. The surest element is the Government's prospective surplus on current, as distinct from capital, account, though even that now seems likely to be more largely earmarked for the financing of " small " dis-saving than at first seemed probable. It is possible, however, to exaggerate the real economic effects of that tendency. As several articles in THE BANKER have demonstrated, the Chancellor's disinflationary policy, based on equilibrium in the nation's capital budget, did not count upon any large volume of personal savings. The fact that " small " savers are eschewing Defence Bonds, which compare much less favourably with marketable gilt-edged securities than they did before the Daltonian phase, and are largely encashing Savings Certificates in the holiday season, is no proof that personal savings through other channels—insurance, building societies, bank deposits and even notes—are not sufficient to support the Chancellor's policy.

On the official estimates, the national capital budget for 1948 seemed to be in equilibrium on the basis of only £250 millions of external deficit. But that assumed a total capital outlay of only £1,800 millions, which most people regarded as an under-estimate even at the time it was framed, and their opinion has since been reinforced—notably by the recent decision to stop, by a more ready licensing of new building, the scheduled decline in the number of houses under construction. But since the external deficit for 1948 is likely to provide some £150 millions more aid than was estimated, the investment programme—if aggregate private savings reach the estimate—can run at £1,950 millions without impairing the prospective equilibrium in the economy

as a whole. This assumes, of course, that the Government does not significantly dilute any further the broad austerity of its policy.

But although a disinflationary equilibrium may be thus sustained, it does not follow that bank deposits must fall, or even that they will not rise. Equilibrium in the capital budget, as an article in the June issue of THE BANKER showed, broadly implies equilibrium also in bank deposits—so long as credit policy remains neutral. But if the public, though saving sufficient to maintain a non-inflationary equilibrium, elects to save increasingly in the most liquid forms, including bank deposits, will the authorities give it the increased funds it seeks, or will they hold the credit reins tight and allow the pressure for liquidity to force a rise in interest rates? In such circumstances, there is surely little doubt that the credit control would be relaxed; for though the present Chancellor may have forsworn cheaper money of the Dalton variety, he has surely not forsworn cheap money as practised in the past. Liquidity pressure could therefore force up bank deposits even without the release of influences which might neutralize or endanger the disinflationary policy.

Suppose, however, that the critics of Sir Stafford Cripps were right, suppose the restraints and fiscal pressures should prove to have been overdone. Would that not produce a deflation of bank credit? Conceivably, but not necessarily. At this point it is well to turn back again to the banking figures of the past half-year. Beyond doubt, it has witnessed the first significant signs of the ending of the seller's market both at home and abroad. Yet in this period, when, in addition, the Government has been trying to curtail the capital investment programme, and has certainly put a strong brake on outlays by private industry, bank advances have risen by 11.2 per cent.—almost as fast as they rose in the first half of 1947. It is true that the rate of growth has slackened in the past few months, but this tendency has synchronized with the very large and non-recurring capital disbursements involved in the Argentine and Conversion Loan repayments, which must have involved some repayments of bank advances or reduction in demand for new ones. There is certainly no evidence here that recession of activity at the margins of the economy involves a net decline in the need for bank finance. On the contrary, the very opposite sequence is likely to occur in the early stages of such a movement, because of the accumulation of unsaleable stocks—a form of "capital outlay" scarcely envisaged in the official estimates but one which demands finance no less insistently than genuine re-equipment of plants or

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replenishment of vital stores. It is a nice question whether the slack that might be created by a marginal recession of demand would so free the channels for movement of key supplies that the banks are relieved even faster of their present function of financing stocks of goods which cannot be completed than they are pressed to finance completed goods which cannot be sold. In such a situation as this there are bound to be both inflationary and deflationary influences existing side by side in the economy at the same time, and demands upon the banks may arise from quite opposite causes.

It would be rash, therefore, to conclude that any violent reversal of the secular trend of bank deposits is imminent. Unless the Government further relents in its policy, the main uncertainties of the next six months or so will spring from the liquidity desires of the public (and here the Berlin situation has an obvious relevance) and the level of "investment"—construed in the wide sense indicated in the previous paragraph. If these factors do not distort the prospective equilibrium, the banks may expect that on balance repayments of debt by the Government will be more or less offset by demands upon them from the private sector of the economy.* Unless the banks themselves later become so impressed by the deteriorating quality of some of their advances as to adopt a very cautious policy, aggregate advances are likely to rise further. On the other hand, will the banks find further opportunities to lighten their huge portfolios of investments, which have been cautiously reduced by a small fraction during recent months? Broadly speaking, that depends upon the liquidity desires of the public. Purely economic analysis suggests that the opportunities may increase; but political influences may be decisive. In the short run, however, the final working-out of the Argentine operation may provide some relief.

As for the liquid assets portion of the balance sheet structure, the Government debt redemptions will presumably be concentrated upon Treasury deposit receipts. The recent increases in these reflect simply the second stage in the Argentine pay-out, for when the companies came to disburse the moneys to their debenture stock-holders, the special bills which provided the counterpart of the temporary deposits at the companies' bankers were redeemed, and the Treasury financed the repayments by T.D.R. borrowing in the normal way. A further switch of this kind will take place when the remainder of the funds are disbursed. Until that happens, the distribution of deposits among the several banks will continue to be, to some extent, abnormal—an abnormality which explains, incidentally, the large fluctuations which have recently occurred as between current and deposit accounts.

For the longer term, a word of warning is necessary. This analysis has been founded on the basis of the chances of overall equilibrium in the capital budget on the model of the Chancellor's present policy. But the whole shape of the problem which has to be faced next year may be radically different from this year's problem—even without political complications. In the economic field, the crucial factor is likely to be the extent of the overseas deficit, and that will depend upon how much E.R.P. can be counted upon in the second year. When such huge imponderables lie ahead, it is evidently impossible to make worthwhile guesses about the trend of the banking position in and after 1949.

* For a full discussion of this relationship, see "The Monetary Factor in Gilt-edged," in the June issue of THE BANKER.

Lombard Street after the Boom

ONE of the by-products of the big expansion which occurred in Lombard Street eighteen months or so ago has been the publication of balance sheets by a number of discount houses which formerly were partnerships or private companies and so did not need to disclose their figures. Now, therefore, it is at last possible to obtain an accurate picture of by far the greater part of the discount market's operations. The innovation is welcome. It is true that the London money market, in its widest sense, derives its special character and efficiency from the enterprise of many old-established private houses and family businesses; on grounds of sentiment, the translation of some of these into public companies is bound to arouse regret. Yet the absence of adequate information about the extent of the operations of so vital and distinctive a part of the whole mechanism as the discount market was an anomaly which has long needed correction.

Before the 1914-18 war, only three discount houses—the "Big Three"—published accounts, and even during the twenties, when the number of firms in the market rose to its peak of twenty-four (excluding running brokers), only half a dozen statements were available. Except in the inner ring of the City, hardly anything was known of the activities of the private houses; most of them did not disclose even the amount of their nominal capital resources. Since 1939, and especially in the past two years, there has been a great change—traced in some detail in a special survey in THE BANKER last year.* The number of discount houses, reduced by amalgamations and retirements to eighteen by the outbreak of war, had by 1943 fallen further to only eleven. Yet the combined business of these houses far exceeded the turnover of the discount market in any pre-war period. The process of consolidating the market into relatively large units, which had thus made considerable headway before and during the war, was virtually completed in 1946-47.

Heavy war-time borrowings by the Government on short-dated securities had given the discount houses new opportunities in the short-bond market, in which they had developed shock-absorbing functions of a kind almost unknown before the war, and involving an immensely greater turnover of bonds. In 1945 it was evident that reconversion finance—not to mention Dr. Dalton's cheaper money drive—would make increasing demands upon Lombard Street's responsibilities in the bond market. Hence the authorities readily gave permission to the discount houses to embark upon a re-financing which rapidly completed the consolidation process. All eleven houses raised new capital in 1946-47, and one new company was formed. Of these twelve houses which comprise the present discount market (again excluding the running brokers), only one now has a disclosed capital of less than £1 million—and that house, Seccombe, Marshall & Campion, Ltd., has a business of a rather special character in that it acts as the market agent of the authorities. Including that house, there are now only three private companies, the combined operations of which probably represent rather less than one-eighth of the business of the market as a whole.

* "The Changing Discount Market," in THE BANKER for March, 1947.

The accounts of the nine public companies therefore provide a sure index to the aggregate operations of Lombard Street. A composite balance sheet for these houses will well repay analysis, especially as it reveals the effects of the big expansion of 1946-47. Discount market accounts, unlike those of the deposit banks, are not, however, made up on a single date in the year. All except the "Big Three" companies, which many years ago adopted the banking convention of accounting on December 31, have indeed deliberately eschewed that date, to avoid the distortions which year-end influences produce in Lombard Street, and some houses have found that the complications of their own tax position are best met by an accounting date near the end of the national financial year. The picture presented by an aggregation of the available figures, though far more complete than formerly, is therefore blurred by a range of accounting dates covering at best a period of seven months in each annual period—from September 30 for Allen, Harvey & Ross to the following April 30 for King & Shaxson. In such a spread, the mean date, weighted according to size of portfolios, would fall early in each calendar year.

TABLE I

LONDON DISCOUNT HOUSES—COMBINED BALANCE SHEET, 1946-48 *

	1945-46 £mns.	1945-46 Capital Multiplier	1946-47 £mns.	1946-47 Capital Multiplier	1947-48 £mns.	1947-48 Capital Multiplier
Published Capital Resources..	15.4	—	23.7	—	25.4	—
Bills	361.9†§	23.4	556.5	23.4	565.7	22.3
Bonds	160.3§	10.4	168.7	7.1	182.9	7.2
Total Portfolio	522.2	33.8	725.2	30.6	748.6	29.5
Re-discounts	19.2†	1.2	43.5	1.8	68.3	2.7
Loans and Deposits	517.5	33.4	712.48	30.0	736.0	29.0

* Nine houses; i.e. excluding Ryders Discount Co., Ltd., Seccombe, Marshall and Campion, Ltd., and Clive Discount Co., Ltd., no accounts for which are published. Balance sheet dates for the nine companies range in each period from September 30 (for Allen, Harvey & Ross, Ltd.) to the following April 30 (for King and Shaxson, Ltd.).

† Rediscounts for Gillett Bros. estimated (at £700,000) on basis of figures given in Chairman's statement of January, 1947.

§ Figures for Allen, Harvey & Ross at March 31, 1946.

The principal items in the resultant composite balance sheet for the nine houses are shown in Table I. The latest year, 1947-48, is the first to show the full effects of the capital expansions, since the issue by the National Discount Co. did not take place until after its 1946 balance sheet; but the issues by each of the other companies were reflected in the accounts issued in the period 1946-47. The figures for 1945-46 for those companies which have only recently started to publish accounts are mainly abstracted from the statements filed for the purpose of the introduction of their shares to the Stock Exchange, or from chairmen's speeches; but the re-discounts figure included for Gillett Bros. has involved a minor degree of estimation, while the figures of the portfolio of Allen, Harvey & Ross are those at March 31, 1946, since details for the preceding September, which would have given a true comparison with subsequent years, have not been published. These, however, are minor qualifications which do not perceptibly distort the picture.

The full importance of the discount market in London's financial mechanism can now be plainly seen. The aggregate portfolio of these nine houses amounts to almost £750 millions, a vastly greater volume of paper than was ever carried by the whole market before the war, and some 43 per cent. more than these same houses carried in 1945-46. There is, unfortunately, no wholly satisfactory method of estimating the corresponding figure for the three remaining discount houses, for the only published figures are those of their paid-up capital. This is larger than was shown in the detailed table of capital issues given in THE BANKER last year, because of the subsequent re-financing by Seccombe, Marshall & Campion, whose disclosed capital is now £500,000, and a second placing of shares by the new company, Clive Discount, whose capital is now £1 million. So far as is known, the capital of Ryders Discount Co. remains at the level of £1¾ millions to which it was raised in February, 1946; this house, although probably fifth in size in the market as a whole, remains a

TABLE II

PUBLIC DISCOUNT COMPANIES IN ORDER OF SIZE, 1947-48 †

(£mns.)

	Published Capital Resources	Investments	Bills and other short-dated Maturities	Total Portfolio
Union Discount Co. of London, Ltd. (*31/12/47*) ..	8.265	64.46	146.17*	210.63
National Discount Co. Ltd. (*31/12/47*) ..	4.987	15.82	115.01§	130.83
Alexanders Discount Co. Ltd. (*31/12/47*)	3.93	29.30	77.91§	107.21
Cater, Brightwen & Co., Ltd. (*5/4/48*) ..	2.444	15.29	71.16§	86.45
Smith, St. Aubyn & Co., Ltd. (*31/3/48*)	1.429	14.92	34.58*	49.50
Gillett Bros. Discount Co., Ltd. (*31/1/48*)	1.052	14.52	34.47*	48.99
Jessel, Toynbee & Co., Ltd. (*31/3/48*) ..	1.223	12.13	31.44*	43.57
Allen, Harvey & Ross, Ltd. (*30/9/47*) ..	1.059	10.12	27.34*	37.46
King & Shaxson, Ltd. (*30/4/48*)	0.976	6.31	27.60*	33.91

† Balance sheet dates, ranging from September 30, 1947 to April 30, 1948, are indicated in brackets.

§ Including short-dated bonds. * Excluding short-dated bonds.

private company by reason of the substantial participation in it by the United Dominions Trust. The known capital of these three private companies thus totals £3¼ millions, while the disclosed resources of the nine companies (including reserves and carry-forward) total £25.4 millions, making £28.6 millions for the market as a whole. The big houses, in particular, have large inner reserves, while it is known that at least one of the medium-sized houses has brought into its balance sheet only part of the substantial premium secured on its recent issue of shares. The aggregate true resources of the market, despite the inroads which investment depreciation has made into contingency accounts, are probably in the region of at least £35 millions, compared with about £22 millions (for eleven houses) on the eve of the capital expansions.

In estimating the portfolios of the private companies, the complication of inner reserves has necessarily to be ignored. If the operations of these houses bore the same ratio to disclosed capital as that shown by the aggregate figures for the nine public companies, their total portfolio would be a little under

£100 millions, making £845 millions for the twelve discount companies proper, plus, say, £5 millions for the running brokers which also finance a small " book " —a grand total, for Lombard Street as a whole, of some £850 millions. The aggregate loans and deposits, similarly computed, would be rather more than £830 millions.

The margin of error in these estimates cannot be large. Unfortunately, no such precision is possible in estimating the division of the portfolio between bills and bonds. As will be seen from Table II, which gives figures for the nine houses separately listed in order of size of portfolios, three houses still cling to the practice of under-stating their bond portfolios by including their shortest maturities in the balance sheet figures for bills—a continued obscurantism which is the more regrettable after the good example set by the largest company eighteen months ago ; and these three houses together account for nearly 40 per cent. of the total business of the market. Nor is there necessarily any consistency in the standards of " shortness " which govern this accounting ; in some instances bonds up to three years have been grouped with bills. Under this system, the mere passing of time can produce a large apparent fall in the bond portfolio from one year to another, even though the nature of the portfolio has been little altered. The only available basis for estimating the aggregate bond portfolio of the whole market is therefore the relationship shown between capital and bonds by the six houses which strictly segregate their bonds. These houses in the latest accounting period showed £122 millions of bonds and their known capital resources aggregated £14 million, giving a capital ratio of 8.8 times* (the true ratio would, of course, be appreciably less than this, because of the hidden reserves). On a strictly proportional basis, this would give a total bond holding of £250 millions for the whole market. The corresponding bill portfolio would be a little under £600 millions.

This particular distortion of the figures is even more marked on a two-year comparison, for in the period 1945-46 only four houses disclosed their true bond portfolios. This is especially regrettable, as it means that only rough evidence can be obtained of the effects of the new financing upon the scale of operations in the bond market. Moreover, hardly any evidence is available of the really big expansion in bond portfolios, since that occurred in the autumn of 1945, before the capital issues were sanctioned. To a significant extent, indeed, these issues were designed to relieve a position already over-strained by Lombard Street's heavy intake of bonds during the opening phase of Dr. Dalton's cheap money campaign, and were not intended to support a corresponding further increase in its bond portfolios. It was to be expected, therefore, that the effects of the new financing would be shown primarily in an improvement in the ratio of bonds to capital and only secondarily in bigger bond holdings. To judge from the accounts of the four companies for which comparable figures are available for three accounting dates, this did in fact happen. The bond portfolios of these houses in 1945-46 were 12.8 times their disclosed capital, but in the following year the ratio was down to 7.9. In the latest period, 1947-48, it rose only slightly, to 8.4. It should be noted, however, that these movements were heavily weighted by large changes shown by the Union Discount, the bonds-to-capital ratio of which was almost halved in the balance

* The ratio would be 10.1 times if the Union Discount is excluded from this group.

sheet following the capital increase, falling from 13.1 to 6.9, while the portfolio itself dropped from £69½ millions to £56½ millions, recovering to £64½ millions last year (with a ratio of 7.8). Between 1945-46 and 1946-47 the three smaller houses in this group (Allen, Harvey & Ross ; Gillett Bros. ; King & Shaxson) increased their bond portfolio from £21 millions to £32 millions, with the result that the capital ratio fell only from 12.0 to 10.5 ; but this last figure would probably have been around 9 if share premiums had been brought fully to account.

Thanks to the capital expansions, Lombard Street was therefore much better equipped to face the rough weather of 1947 than it would otherwise have been. The slump in the gilt-edged market provided the first real test of the new-style bond-dealing, which previously had been conducted only in fair weather. The discount market sailed into the storm under full canvas, but the vessels themselves had been greatly strengthened. The published accounts, however, give very little indication of the damage that was done. One house, which had the ill fortune to make up its balance sheet at almost the lowest

TABLE III

MONEY MARKET SHORT BONDS, 1946–48

Net Prices at :	End-1946	1947 High	1947 Low	End-1947	1948 July 16	Depreciation (as % of peak) At worst	Depreciation (as % of peak) At July 16, 1948
2½% Nat. War, 1949-51 ..	102⅞	103⅛ *29/1/47*	100 5/16 *15/8/47*	101⅛	101⅛	*2.5*	*1.8*
1¾% Exchequer, 1950 ..	101⅝	102 *29/1/47*	99¾ *14/8/47*	100¾	100⅞	*2.6*	*1.0*
2½% Nat. War, 1951-53 ..	103⅜	104 1/16 *3/2/47*	99 1/16 *16/9/47*	100 11/16	102⅛	*5.0*	*2.0*
2½% Nat. War, 1952-54 ..	103¾	104 5/16 *5/2/47*	98 *14/8/47*	99 11/16	102⅜	*6.3*	*2.1*

point of the trough did, indeed, show a loss after providing for depreciation ; others, accounting on more favourable dates, generally showed relatively moderate declines in profits, even in cases in which depreciation had been charged against them ; one large company actually announced bigger profits, but after charging depreciation against contingency account ; and yet another (Alexanders), which had shown an abnormally large increase in profit in the previous year, reported an even more violent fall in 1947, despite the charging of depreciation against contingencies. It would be unwise to try to draw detailed conclusions from these contrasts ; to a considerable extent they may result merely from differences in accounting technique—for inner reserve policy and the divergent methods of treating income tax make discount market profit and loss accounts particularly inscrutable.

There is no doubt, however, that the market did have to absorb some heavy blows. Even though its portfolios are confined to short and relatively short maturities, the depreciation from peak to nadir in 1947 was large, as Table III shows. In the two bonds in which the market was primarily (and is now almost exclusively) involved, it was roughly 2½ per cent., and ranged up to almost 6½ per cent. for the longest bonds of which account need be taken. Even the smaller of these losses would be equivalent to rather more than two

years running margin (after deducting the cost of financing the portfolio) on the basis of the yields current at the peak prices. In effect, the market found that it had to amortize in a few months most of the premiums which it had reckoned to amortize over the three years or so which, on the average, its portfolios had to run. Some houses took immediate steps to shorten sail, and therefore incurred substantial losses on actual realizations. But during the main pressure on the gilt-edged market, Lombard Street's shock-absorbing responsibility forced it to take in further quantities of bonds—often of rather longer date than it really cared to do in such conditions, extending to the 1952-54 issue of 2½ per cent. National War Bonds. Last autumn, the bond position of the market was once again fully extended, despite the new capital. Thereafter, however, the discount houses took the first opportunity to reduce the load by selling their longer bonds. More recently, they have been filling up their portfolios again, but with the shortest maturities. Their holdings now are concentrated upon the 1¾ per cent. Exchequer Bonds, 1950, and the 1949-51 issue of National War Bonds; holdings of longer issues are believed to be very small. Thanks to this policy, Lombard Street has put itself in the best position possible to meet any further shocks; if these are avoided, the relatively comfortable running margins now obtainable should enable it steadily to re-build its inner reserves.

Turning now to the market's business in bills, it will be seen that the expansion in portfolios over the past two years has been much greater, both absolutely and relatively, than that in bonds. This, however, follows naturally from the fact that the growth in bill operations, unlike that in bonds, did not anticipate the increase in capital resources. Over the two years, the aggregate bill portfolio of the four houses which strictly segregated bills in their 1945-46 accounts expanded by no less than 71 per cent., but this average is strongly influenced by a very large increase in the figures of the Union Discount, whose bill portfolio was roughly doubled in the calendar year 1947; if the Union's figures were excluded, the average increase would be 46 per cent. A computation based roughly on the mean of these two figures suggests that the bill portfolio for the market as a whole in 1945-46 was rather less than £380 millions, and on that basis the expansion over the two-year period must have exceeded £200 millions.

This very rapid rate of growth was, of course, made possible by the Treasury's post-war policy of switching the emphasis in its floating debt borrowings from Treasury deposit receipts to Treasury bills; but, in addition to the resultant large expansion of the total bill supply, the degree of competition from non-market quarters has tended to decline. As Table IV shows, the aggregate allotments of tender bills to the discount market syndicate has been running in the past half-year at an annual rate of roughly £4,200 millions, in contrast with some £2,470 millions in the calendar year 1945 and about £670 millions in the twelve months before the outbreak of war.

The gross profit margins obtainable from these huge operations are, however, still exiguous, so that even this six-fold increase in Treasury bill turnover since 1938 has done little to reinforce bill market profits and has probably not kept pace with the rise in office expenses. From this point of view, a development of greater long-term significance is the welcome revival that has occurred since the war in business in commercial bills. It is a much more impressive

revival than many people had expected. The re-discounts item shown in Table I has been multiplied roughly 3½ times in the two years; as a high proportion of the total of commercial bills passing through the discount market is generally under re-discount either at the Bank of England or the commercial banks, this movement is probably a fairly reliable guide to the expansion in the total supply of discountable paper. If allowance is made for the undisclosed re-discounts of the three private discount companies, as well as for the further expansion of recent months, it appears that the present total is not far short of £100 millions. As an article in the March issue of THE BANKER showed, this resuscitation of the traditional functions of the market reflects demands from a wide range of types and channels of trade, but it is still true to say that a high proportion of the bills results from "financing" operations of which the tobacco credits and wool processing credits are perhaps the best examples.

TABLE IV

MARKET TURNOVER OF TREASURY BILLS*

		Total Allotted £mn.		Syndicate Allotment *Actual* £mn.		*Proportion* %		Syndicate Weekly Average £mn.	
1938/39 §		*455*		*167*		*37*		*13*	
1945 ..	I	1430		444.2		31.1		34	
	II	1620	6560	566.2	2465.1	35.0	37.6	43	47
	III	1690		582.3		34.5		45	
	IV	1820		872.4		47.9		67	
1946 ..	I	1760		834.1		47.4		64	
	II	1930	7800	859.0	3454.4	44.6	44.3	66	66
	III	1960		775.9		39.6		60	
	IV	2150		985.4		45.8		76	
1947 ..	I	2185		1056.4		48.4		81	
	II	2180	8805	958.8	4177.3	44.0	47.4	74	80
	III	2200		1091.9		49.5		84	
	IV	2240		1070.2		47.8		82	
1948 ..	I	2160		1073.1		49.7		83	81
	II	2210		1025.1		48.8		79	

* Estimates since 1939 based on assumption that market tenders just cover total offered; this basis somewhat under-estimates the allotments, notably in 1946, when the error probably approached 5 per cent. Periods relate to dates of tenders, not of payments, for bills. The first of each pair of columns gives quarterly figures, the second gives annual.

§ Quarterly average of twelve months to August 25, 1939.

This expansion, however caused, is particularly welcome to the discount houses because the rates charged have at last been put upon a more reasonable basis. Throughout the period of cheap money, commercial borrowers through the bill market have had the full benefit of the pressure on short money rates. Until early this year three months' bank bills were being discounted in Lombard Street at the standard rate of 17/32 per cent. per annum, offering to the discount market a gross profit margin of a mere 1/32 per cent. per annum. But late in January the discount houses agreed among themselves to raise the rate to 9/16 per cent. per annum for three months' bills and to 5/8 per cent. for four and six months' bills. In consequence, the gross profit margin has been doubled; even so, the 1/16 per cent. per annum represents only 3¾d. per £100 for each three months discount operation, which means that to earn £625 in a year from discounting three months' paper, a discount house must turn over no less than £1 million of bills.

Monetary Systems of the Colonies

II — West Africa

By a Special Correspondent

AFRICA is much in the news and much in people's thoughts as a vast continent whose development can contribute much to the prosperity both of its own peoples and of the world at large. Modern development requires a sound basis of local economic organization. How is the monetary part of that basic economic structure organized? Of the British areas, it is convenient to take West Africa first, as the region where the present-day system was first established.

British West Africa includes the four territories of the Gambia, Sierra Leone, the Gold Coast and Nigeria. The characteristics of their still primitive economies are broadly similar; large peasant populations engaged mainly in producing food and other simple necessities for their own use, but devoting part of their efforts to producing a few staples for sale and export—groundnuts, palm oil and palm kernels, cocoa—and spending the money so earned on cotton piece goods, hardware and other simple manufactured goods; virtually no large plantations; a few capitalist-organized mining industries—gold, tin, iron ore, manganese, chrome and diamonds; external trade highly concentrated in three senses—physically because it flows through a bare half dozen main ports, in content owing to the predominance of a few staples in both import and export, and in organization owing to the predominant share conducted by a few large United Kingdom firms. The external trade of the area has had its severe ups and downs, but to-day all its primary products are in demand and selling at prices above or near the highest ever obtained before. Outstanding is cocoa, which in the season now closing has probably earned something like £60 millions, of which more than a third was in dollars. Cocoa sales, backed by gold, diamonds and other minerals, make West Africa second in importance only to Malaya among Colonial territories as a dollar earner.

The present currency system originated in the report of a Departmental Committee in 1912. Before that, many varieties of coin (and other things) were used as media of circulation. In all the territories United Kingdom gold, silver and copper coins were legal tender. So in individual colonies were French, Spanish and American gold coins. The Gold Coast had, in addition, its own issue of nickel-bronze. More primitive kinds of currency were also still in use, including cowries, gold dust, rods and wires of various metals and "manillas"—broken bronze rings which had come to be manufactured mainly for use as currency and at one time had legal tender status. The ubiquitous Maria Theresa dollar was also found in Northern Nigeria. No notes of any kind were legal tender or, to any significant extent, customary tender. Of all these varieties of currency, the commonest, and what might be regarded as the standard, was, in fact, United Kingdom silver. The legal tender of silver was not limited as in the United Kingdom and demands for new currency were in practice met by new shipments of silver from the United Kingdom.

As in other British colonies, silver coin was delivered locally in West Africa against payment of the face value in London, the Government bearing the cost of delivery.

The issue of silver for circulation in West Africa had indeed been increasing very rapidly, as the following figures show:

	£
1886—1890	24,426
1891—1895	116,323
1896—1900	257,070
1901—1905	262,786
1906—1910	666,190
1911—	874,850

In some years the issues for West Africa actually exceeded the total issued for use in the United Kingdom itself; the figures are striking evidence of the expansion of trade which was going on in those days of " neglect " of colonial development.

Obviously, however, the currency situation was not ideal. The confusion of coins, etc., in circulation was itself an inconvenience, but a more fundamental defect arose from the use as the principal form of currency of United Kingdom silver, which was neither full value coin nor token coin automatically convertible into gold, sterling or any other more general currency. The Royal Mint was willing enough to issue silver coin on demand, since the cost of manufacture was considerably less than the face value, but no authority in the United Kingdom was prepared to take back automatically any surplus silver. Accordingly, if at any time the expansion of trade were checked and there developed a surplus of coin in West Africa, there would be no ready means of contracting the circulation and disposing of the surplus. The Departmental Committee was far-sighted enough to foresee the possibility of such a situation, which would certainly have arisen during the trade recessions which occurred in later years if steps had not been taken at that time.

In addition to this fundamental defect in the currency, the Committee drew attention to the disadvantage from the point of view of the local Governments that the whole of the seigniorage or profit on the issue of silver was enjoyed by the United Kingdom exchequer. Finally, the existing forms of currency were unsatisfactory in that they made no convenient provision for the settlement either of very small or very large transactions. At the one end of the scale United Kingdom copper coins were unpopular and the circulation limited, and, except in the Gold Coast where coins of one-tenth of a penny were issued, there was no unit of currency sufficiently small to cater for the smallest transactions in local markets; hence the common use of manillas, iron rods, etc., for such transactions. At the other end, the absence of any note circulation meant that large transactions had to be settled somewhat inconveniently in bags of coin.

The Departmental Committee with some hesitation, understandable at the time as they were embarking on what was then a new experiment, recommended the establishment of a system which in effect was the same as that which exists to-day: an authority in the shape of a Currency Board was to be set up in London which would arrange for the provision and issue in West Africa of coin and notes of suitable denomination, to be issued against payment in London of the face value, subject to a small commission, and to be redeemed by the Board on demand by payment of sterling in London, again subject to a small commission.

The Board was duly constituted and commenced its operations in 1913 with the issue of new silver coin. It took over and introduced into the other territories the nickel-bronze coinage in the Gold Coast, and, from 1916 onwards, added notes also to the circulation.

It was an essential part of these changes that arrangements should be made for the gradual replacement of United Kingdom silver in circulation, and the United Kingdom Government agreed to accept this silver over a period of years as and when it could be withdrawn and exchanged for the new coinage. Originally there was a limit of £100,000 a year on the amount to be so accepted, but it was soon agreed to exceed this, and by the end of the 1914-18 war the total amount repatriated amounted to £900,000. During the next five years, a further £2.3 millions was repatriated and the movement still continues. It has now diminished to a trickle (£20,000 in 1946-47), but the total repatriation since 1913 has been £5,370,334.

The system proved a great success and has not been modified in substance since its establishment. To-day, the four territories have a convenient and uniform currency—notes in denominations of £1 and 10s., silver or alloy coins of 2s., 1s., 6d. and 3d. (the original silver issue was replaced by an alloy in 1910), and nickel-bronze of 1d., ½d. and $\frac{1}{10}$d. These are the only forms of currency now in general use, although there is apparently still some British silver left and the traditional manilla obstinately continues in use. The external exchange system works smoothly; the Currency Board, in practice, deals only with the local banks, but the commission (at present ½ per cent.) it charges on the issue or redemption of currency for them in fact governs the rates they charge to the public. As tested by experience, the system has shown itself capable of dealing with fluctuations either way in the demand for currency, the Board absorbing large quantities in times of depression and issuing additional quantities as required in times of boom.

The Currency Board itself operates from London. It is appointed by the Secretary of State for the Colonies and has always been closely linked with the Colonial Office and the Crown Agents for the Colonies (who supply it with office accommodation and clerical staff). To-day, its chairman is one of the Crown Agents, Mr. H. F. Downie, and its other members are Mr. R. N. Kershaw of the Bank of England and two officials of the Colonial Office. Until his death, in 1942, Sir Roy Wilson of the Bank of British West Africa was a member, but it has become the modern practice not to put representatives of the interested commercial banks on Boards of this kind. For the transaction of local business the Board appoints a Currency Officer in each of the colonies, generally the local Accountant-General; his main job is to supervise the actual physical issue of coin and notes on telegraphic instructions from the Board; the receipt of notes and coin presented for redemption, which he then notifies to the Board by telegram in order that they may pay out sterling in London; and the exchange of worn notes for new. The actual custody of the local stocks of coin and notes is in the hands of the Bank of British West Africa as Currency Agents. Stocks and issuing offices are maintained at the capitals of each of the four colonies and at a few up-country stations.

As will be seen, the organization makes considerable use of the ordinary structure of government—a very economical arrangement, as the official members of the Board itself receive no payment in that capacity, and only

small payments are necessary to the local Currency Officers and the Board's London staff. The overhead costs are therefore negligible compared with the size of the Board's transactions.

The following table shows the circulation of the different classes of currency over the last twenty years :

(£ 000's)

At June 30 :	Notes	Silver and Alloy Coins	Nickel-Bronze	Total
1927	729	13,472	540	14,741
1932	628	7,846	548	9,072
1937	2,375	16,006	888	19,269
1938	2,500	12,918	949	16,367
1939	1,715	8,912	1,078	11,705
1940	1,564	9,810	1,278	12,652
1941	2,134	9,873	1,477	13,484
1942	3,384	12,634	1,735	17,753
1943	5,626	16,393	1,932	23,951
1944	5,897	18,364	2,117	26,378
1945	7,624	19,785	2,283	29,692
1946	8,896	22,451	2,478	33,825
1947	12,117	27,005	2,645	41,767

No exact figures are obtainable of the distribution of the circulation between the four colonies, but estimates based on the amounts issued showed the distribution on March 31, 1946, to be: Nigeria £18,140,000, Gold Coast £11,180,000, Sierra Leone £1,993,000, and Gambia £925,000. (These figures, it will be noted, are not exactly comparable with those in the table, which relates to June 30 in each year.)

Some of the main points of interest emerging from the table are :

(1) The sharp declines in total circulation in the trade depressions of the early thirties and 1938-39, the latter being intensified by the cocoa "strike" in the Gold Coast in 1938.

(2) The growth in the proportion of notes from under 5 per cent. in 1927 to 29 per cent. in 1947.

(3) The steadiness of the nickel-bronze figures.

These figures show how the system has been able to deal smoothly with large fluctuations in the circulation and especially how well justified were the fears of the 1912 Committee that a time might come when there would be a sharp contraction. Under the old state of affairs there would have been no means of absorbing the large quantities of coin which became surplus to public requirements in the depression years ; as it was, the Board was able without difficulty to give the public sterling for the surplus and was put to inconvenience only in finding storage space for the coin returned into its hands.

Some peculiarities of the actual circulation are worth noting. Most of the 2s. pieces circulate in the Gold Coast which, for unknown reasons, prefers them to shillings, while Nigeria dislikes florins and sticks to shillings. The one-tenth pennies, the lowest valued units in active circulation in British territory, though originally minted for the Gold Coast, are now mainly used in Nigeria. They are convenient for small market business, but are a source of loss to the Currency Board as they cost more to mint than their face value. However, the Board regard it as their duty to supply them so long as there is a public demand. Some critics do, indeed, allege that the demand is largely

non-monetary, since these coins (like the rest of the West African pieces) have a hole through the middle for the convenience of the pocketless African who keeps his small change on a string; and tenth-pence are said to be of very convenient design and size (and price) to serve as washers. However, in these days of shortage of building materials, the Currency Board may be fulfilling a useful if unusual public service by adding to the supply of washers.

The physical volume of the Board's issues of coin is considerable. In the three years ending June 30, 1947, they issued £2,060,700 in florins; £6,545,600 in shillings; £233,600 in sixpences; £298,025 in threepenny bits; £260,771 in pennies; £15,691 in half-pence; and £17,670 in tenth-pence—a total of over 270 million pieces. They are accordingly one of the Mint's biggest customers.

The continued use in Nigeria (especially the Calabar and Owerin Provinces) of manillas has already been noted. Estimates of the number in circulation vary from 15 to 40 millions, while exchange rates varying between seven and eighteen to the pound have been reported. They have no legal status or recognition but are firmly rooted in custom, and various proposals to redeem or withdraw them have so far come to nothing.

Notes began to be issued only in 1916. Their proportion to the total circulation has steadily risen, but it is still lower than in any other British region of comparable size, reflecting the still primitive nature of much of the area and the low average incomes. It rose more rapidly during the war, as prices and incomes rose and larger units of currency were in greater demand; it will no doubt continue to rise. Only two denominations of notes—£1 and 10s.—are of practical importance. Notes of £5 have been issued, but their circulation has been steady for years at a total of 28 notes; at the other end of the scale 2s. and 1s. notes have also been issued, but the current circulation is less than £16,000.

The finances of the Board are managed with the utmost prudence. They aim at holding sterling cash or investments sufficient to cover the whole of the face value of the coin and notes in circulation (less the estimated realizable value of silver in the coins) plus a margin for contingencies. The whole of the sterling received against new issues is therefore added to the reserve. A proportion of these funds is held in liquid form—on deposit with a bank or in Treasury bills—but the greater part is invested in gilt-edged stocks of carefully spread maturities. The interest receivable on these holdings, plus the commissions received on issues and redemptions, is available to meet the costs of management and the considerably larger costs of manufacturing and shipping coin and notes. In recent years there has always been an excess of income over expenditure. It is within the discretion of the Board to make distributions to the four constituent Governments out of these surpluses of income. Their invariable practice hitherto has been to utilize part of it to add to their reserves, but they are able also to declare a " dividend " each year as well.

The strength of the position built up by this financial policy is shown by the table on the following page, which gives figures for the Board as at June 30, 1947. It will be seen that at that date the Board could give face value in sterling for every note and coin they have ever issued, down to the last one-tenth penny, and would still have £4,827,545 or 10.44 per cent. left over.

The distributions to Governments of surplus income started in 1920, and have been interrupted in only two or three years since, e.g. as a measure of caution in 1939 and 1940. Up to 1947 they had totalled £6,850,000 (divided between Nigeria, £3,506,909; Gold Coast, £2,642,670; Sierra Leone, £503,947; and Gambia, £196,474). The distributions for the last three years have been: 1944 £250,000, 1945 £500,000 and 1946 £600,000. (For comparison, the total revenues of the four colonies from all sources in 1945-46 were approximately £23 millions.)

WEST AFRICAN CURRENCY BOARD

At June 30, 1947

	£
Face value of total circulation	41,767,275
Less realizable value of silver in the coin	385,179
Net nominal liability for redemption	41,382,096
Liquid assets 3,458,757*	
Investments 42,750,884	
	46,209,641
Surplus	4,827,545

* Cash and Bank deposits, less balance of certain small outstanding accounts.

The banking organization of these territories is still only in the early stages of growth. It is mainly in the hands of two United Kingdom banks, the Bank of British West Africa and Barclays (D.C. & O.); but one locally incorporated bank, the National Bank of Nigeria, is now in operation, and has five branches in Nigeria. Of the two bigger banks, the Bank of British West Africa is the older established and has branches in all four of the colonies (fifteen branches in Nigeria alone). The Colonial Bank, which was merged in the formation of Barclays (D.C. & O.) in 1925, entered the West African field only in 1916. To-day Barclays are established in Nigeria (eight branches), the Gold Coast and Sierra Leone. Unfortunately, no statistics are published of deposits or of the other main items of banking figures, but the small part played as yet by banking in ordinary life is indicated by the fact that the three banks in Nigeria have between them twenty-eight branches to serve over 20 million people.

Not merely the extent but the character of banking in West Africa reflects the primitive character of its economy. As elsewhere, the banks discharge a

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necessary public function as custodians of cash and as agents for external exchange operations ; but they very largely stop there and act only to a small extent as providers of short-term capital. This is due to the fact that the scope for local advances is limited by a number of factors ; the big firms which handle the major part of the import and export trade are likely to borrow direct in London if they need finance ; the absence of large plantations and the impossibility of obtaining security by way of mortgage on lands held under native tenure rule out any large crop advances or other banking finance for agriculture ; and industrial development is still too small to make much demand for credit. The banks' funds tend, therefore, to seek investment outside the colonial monetary area, i.e. in London. Other aspects of the economic and monetary structure conspire to the same end. As already stated, the banks are still looked upon primarily as custodians of cash ; in other words, local depositors, in the aggregate, are more likely to want to turn their deposits into cash than are depositors in the United Kingdom. That likelihood is increased by the wide seasonal and other fluctuations which have hitherto marked West African trade. The bank, therefore, has either to keep a very high cash reserve or to keep its earning assets invested in a form which can be most readily turned into cash. Under the currency system in being, the one thing which is convertible at will and without delay into cash in West Africa is a sterling deposit in London ; and the hardest thing to convert into cash, especially in a trade depression, is a local overdraft. Hence prudence combines with lack of effective demand to divert a large proportion of the West African banks' earning assets to London.

Incidental reference has been made to most of the characteristics of West African economy which influence its monetary arrangements. The primitiveness of economies in which millions of people still live in tribal subsistence societies and in which average incomes were, at least until recently, well under £10 per head, are reflected in the high proportion of coin in circulation and the restricted scope of banking. The dependence on a few staple export products for money income, by emphasizing seasonal fluctuations in the demand for cash and, in pre-war days, market fluctuations in prices, has made it necessary for the banks to hold large cash, or easily encashable, reserves. It is a matter for speculation what effect recent developments in prices and marketing will have on the monetary system, especially its banking side. If the prices of cocoa and oilseeds are stabilized at something like their new high levels, not merely the size but the composition of the currency circulation might be greatly changed. Much more interesting, however, are the possible effects on local banking practice if the marketing boards which are being set up to handle cocoa and oilseeds are successful in evening out price fluctuations and so stabilize the demand for cash and reduce the need for high cash ratios. There is in any case no doubt that large developments in trade are to be expected in the future. Both in the currency and the banking structure, the essential foundations for such developments already exist. Any necessary expansion in currency can be provided automatically ; the extension and development of banking facilities to keep pace with it is a more complex matter, but provides at once a challenge and an opportunity to the British banks concerned.

Bankers and the Companies Act—III

By R. W. Jones

SINCE last month's notes were written on the amending Act of 1947, the Companies Act, 1948, has received the Royal Assent. This compendious measure of 462 clauses and 18 schedules consolidates the whole law relating to incorporated companies, repealing and reproducing such of the previous Act of 1929 as was not altered by the amending Act of 1947.

This latter Act, likewise, is for the most part repealed and reproduced, the seventeenth schedule to the 1948 Act indicating the sections which are left untouched. It is difficult for the layman to wend his way through the intricacies of this repealing schedule and to comprehend the reasons for not making a clean sweep of the 1947 Act.

"Retained" Sections of the 1947 Act

However, it is less difficult to perceive the reasons for the non-repeal of five particular sections. It will be remembered that the 1947 amending Act contained an unusual feature in that it amended other statutes besides the Companies Act, 1929, such as the Bankruptcy Act, 1914, the Registration of Business Names Act, 1916, and the Prevention of Fraud (Investment) Act, 1939. Presumably as a measure of legislative economy, these particular amendments have been left untouched; otherwise, failing individual amendment, the anomaly would have occurred of including in a consolidating Act amendments to other statutes. To avoid such a situation the sections in question are left where they are and the Companies Act, 1947, will in consequence remain on the Statute book in truncated and attenuated form.

The first of these sections is S. 58, which amended the Registration of Business Names Act, 1916, by requiring the registration under the Act of any company which trades under a name not consisting solely of its corporate name. S. 116 amended the same Act by empowering the Registrar of Business Names to refuse registration of a business name of any concern, incorporated or otherwise, which in his opinion is undesirable.

S. 115 is also for the most part left unrepealed. It amended the Bankruptcy Act, 1914, and its Scottish equivalent of 1913, first by bringing them into line with the new legislation regarding preferential payments in a company winding up—whereby the maximum amount for which employees may claim for unpaid wages or salaries as preferential creditors is increased to £200 and the time limit for workmen and labourers is raised to that obtaining in the case of a clerk or servant, namely, four months. It is important to note, however, that the provision in S. 91 of the Companies Act, 1947 (now S. 319 (4) of the Act of 1948), whereby a party lending money to a company for the payment of salaries or wages of its employees is subrogated to the rights of such employees in a winding-up, is not applicable in cases of bankruptcy. Secondly, S. 115 further amends the Bankruptcy Act by extending the crucial period of three months to six months in respect of fraudulent preference. It also applies to unincorporated borrowers the provisions of S. 92 (4) (now S. 321 (3) of the 1948 Act) regarding fraudulent preference of guarantors and sureties of companies.

SS. 117 and 118 of the 1947 Act are also left unrepealed. These amended in sundry respects the Prevention of Fraud (Investment) Act, 1939, regarding unit trusts and prospectuses.

After this necessary digression from the tenor of this series of articles, there remain for consideration sundry further items of the new company legislation which are of special practical interest to bankers. In what follows, all references are to the sections of the Act of 1948.

Directors

First, as to directors, S. 190 prohibits a company from making a loan to a person who is its director or a director of its holding company, or from entering into any guarantee or providing any security in connection with a loan made to such person by a third party. This means that a banker cannot make a loan to a company customer if the avowed purpose is to enable the company to relend the money to a director. It is possible, of course, that the company when asking for such accommodation may give a spurious reason for its request, declaring the funds to be needed, for example, for general business purposes. Presumably a banker who is unaware of the real reason for the advance would be protected and, on the authority of *re* David Payne & Co. (1904), would not find himself with an *ultra vires* borrowing. Here it was held that a lender is bound to look only to the memorandum and articles of a company, and if on that basis the transaction appears to be in order, he can safely proceed. He is not bound to enquire if the advance is really required for the company's purposes and if he does not know of any design to misapply the loan he is not liable if in fact there is misapplication.

Then a banker must be on his guard against accepting a company as a guarantor or surety for a borrowing by one of its directors, for such security could not be enforced against the company or its liquidator.

There are, however, certain saving provisions in S. 190. It does not apply, for example, to a private company of the exempt variety; neither has it application to a subsidiary company where the director to be accommodated happens to be its holding company. In addition, it is in order for a company to advance money to a director to cover expenditure incurred or to be incurred by him for the purposes of the company or to provide him with the wherewithal properly to perform his duties as an officer of the company. This concession, however, is subject to the proviso that the borrowing must have been previously approved by the company in general meeting or, failing approval at or before the next annual general meeting of the company, the loan must be repaid or the company's liability as guarantor or surety discharged within six months of such meeting.

Companies whose ordinary business includes the lending of money (such as a bank) or the giving of guarantees (such as a guarantee corporation) are exempt from the provisions of S. 190.

Debenture Trusteeships

One of the advertised services of a bank's trustee department is acting as trustee for debenture stockholders, and the advantages possessed by a corporate trustee over an individual trustee have been increasingly recognized. There is continuity unbroken by death or resignation, wide knowledge and experience,

and an expert and specialized organization. In acting in such a capacity, a bank will assume the custody of the documents of title of the underlying securities to the debentures, it will seek to ensure that the company commits no breach of the covenants in the debenture, and will put in train the appointment of a receiver when circumstances arise where such a proceeding is justified. In the Act of 1929, however, there were no provisions regarding debenture trustees, for such parties are not officers of the company.

A common clause in a trust deed appointing a bank as trustee for debenture holders runs something like this: "No trustee shall be liable for anything whatever except a breach of trust knowingly and fraudulently committed by himself". The value of this exonerating clause was tested in the City Equitable Fire Insurance Company case in 1925, where it was held that it would protect a trustee unless he had consciously done wrong. The Cohen Committee took the view, after hearing exhaustive evidence on the subject, that such a comprehensive indemnity in a debenture trust deed should be prohibited, but not to the exclusion of enabling clauses permitting trustees to act on expert advice.

Following the Committee's recommendations, S. 88 of the 1948 Act enacts that any provision exempting or indemnifying a trustee against liability for breach of trust where he fails to show the degree of care and diligence required of him as a trustee, shall be void. This general prohibition is modified, however, by sub-section (2), which provides that it shall not invalidate any release validly given in respect of anything done or omitted to be done by a trustee before the giving of the release, or any provision enabling such a release to be given on the agreement of a three-fourths majority in value of debenture holders. This operates in respect of specific acts or omissions or on the trustee dying or ceasing to act.

Provisions as to indemnities in force at the commencement of the Act are not affected.

Conflict of Interest

The Cohen Committee also reviewed the position which obtains where a debenture trustee is liable to be faced with a conflict of interest such as might arise where a bank acts in the dual capacity of bankers to a company and trustee for its debenture holders. Circumstances can be envisaged in such a case where the company is obligated to the bank and the interests of the debenture holders require the appointment of a receiver which might not suit the bank as banker to the company. The Committee did not feel justified in recommending that parties who might have interests conflicting with those of debenture holders should be prohibited from acting as trustee for the latter, but expressed the hope that they would abstain from putting themselves in a potentially embarrassing position by assuming a dual rôle.

Accordingly, the new legislation is silent on the subject, but in the case of debenture issues of public companies, the prohibition is virtually attained, inasmuch as the Council of the Stock Exchange is likely to refuse permission to deal in a debenture issue where the trustee for the debenture stock-holders happens to be the banker of the company.

This article concludes Mr. R. W. Jones's guide to the matters in the new Companies Acts which particularly affect the practical banker. The previous articles appeared in the June and July issues of THE BANKER.—ED.

Perspective on Life Assurance

By Leo T. Little

LORD KEYNES, himself then chairman of one of the life assurance offices, described them as " trees of which the girth puts on one more ring a year with the sap of compound interest ". The aphorism is a telling one, but like most aphorisms it gives only part of the picture. If their growth depended only on the flow of interest, the sixty or so mighty life assurance trees in this country would have shown signs of some malnutrition during the last decade and a half. In 1932 there began the great decline in interest rates. Only a few years later there set in the great advance in the rate of income tax—and the income tax payable by a life office is assessed on its interest and is effectively a deduction from it. But it happened that this partial drying-up of the " sap of compound interest " coincided with an historic and compensating popularization of life assurance—which brought other arboreous sustenance.

Over the period since 1932, even though six years of war are included, the annual growth of the premium income averaged 4.5 per cent. in the ordinary branch ; but the annual growth of interest averaged only 1.9 per cent. over the same period. The figures are as follows, those for 1932 and 1945 being taken from official statistics and those for 1947 being estimated :

BRITISH ORDINARY LIFE OFFICES

(£ mns.)

	1932	1945	1947
Premiums	73.1	109.1	126.0
Interest	33.9	39.8	44.0

The expansion in the premium income has indeed been the most conspicuous favourable feature in the recent medium-term history of the life offices, just as the fall in interest rates has been the most noticeable adverse one. The question that immediately springs to mind is whether the trend has now changed.

The Rate of Interest

The past year was welcomed by the life offices as marking what may have been the nadir of interest rates. " May have been ", not " was certainly ". The fifteen years' continuous decline induces some caution in any reference to the upturn in the interest trend ; moreover, actuaries are well aware that a curve may show not one minimum but several minima. Yet certainly the graph of earned interest reached a minimum point in 1947. This may be plainly seen in the fact that while in the first half of 1947 the Government clearly expected to issue British Transport Stock with a rate of interest of 2½ per cent. in exchange for the securities of nationalized transport undertakings (securities which were held in large amounts by the life offices) in the event the compensation stock, when it was issued in January, 1948, bore interest at 3 per cent. Again, any of the more precise measures, for example, the *Financial Times* indices of the prices of Consols and ordinary stocks or the security indices of the *Institute of Actuaries*, show that highest levels were reached in 1947 and that the decline in prices (that is, the increase in yields)

has not yet been arrested. Thus it may truly be said that the sap has been rising during the last year or thereabouts.

Even so, it is important not to exaggerate the effects of this recent movement upon the published results of the life offices, apart entirely from the question whether or not it is a lasting one. When interest rates were falling, a pronounced appreciation occurred in the market values of the assets held by the offices, but this appreciation, which may be put at a minimum of 10 per cent. on the average, was not brought into account. In consequence of this understatement of asset values, published rates of interest, expressed by the offices as percentages on the book values of their assets, were appreciably larger than the true figures—again, by at least 10 per cent. Now that the movement is in the contrary direction, and the depreciation in asset values is taken out of the hidden reserves previously built up by the offices, the increase in published rates of interest is less than it would be if the decline in asset values were actually recorded in the balance sheets. Without the " cushion " formed by these hidden reserves, the offices would be so apprehensive of the capital losses they would incur during this new phase that the benefit of the increase in interest rates might be completely offset. Thus the argument presented must not be taken as any aspersion upon their conservatism in not writing-up their assets in the past, for that was a wholly commendable caution which now stands them in very good stead ; the argument is simply a *caveat* against expecting too large an increase in published rates of interest in, say, the current year.

The advance in interest rates will for some time have only a fractional effect upon the rates earned by the offices, partly because, for the reason just given, any rise in the earned rate on existing investments which might have resulted from a fall in market values will not occur all the time the depreciation is not recorded, partly because the investible increment in life assurance funds, though absolutely large, is only a small part of the total funds. Just as the published rates of interest on life assurance funds lagged behind the market rate in the down-swing, so they will lay behind it in the up-swing. Despite the higher market rate, only some of the offices record increases in the percentage earnings on their invested funds in 1947 compared with 1946—and these increases are extremely small.

When they acquired liberty of investment action at the end of the war—during the war years, in conformity with a " gentlemen's agreement " with the authorities, all increases in the funds were put into British Government securities—most offices adapted their policy to the conditions of very low interest in a number of ways. Firstly, they showed much greater willingness to invest in industrials, particularly in ordinary stocks. Secondly, they sought other assets outside Government securities, particularly mortgages, in whose acquisition they were aided by a boom in dealings in old house properties. There can be little doubt that these tendencies will continue unabated for, as the earlier discussion has shown, the rise in interest rates that has so far occurred has been very limited in its effects. Moreover, there has been a substantial diminution in the volume of non-Government securities of the trustee and quasi-trustee class, following nationalization (especially the nationalization of transport) and this has increased the pressure of assurance funds upon ordinary shares and upon mortgages, though it has also made necessary a bigger flow of funds into Government securities than would

have occurred in its absence. It was pointed out by D. Weaver of London, in a paper written for the recent Centenary Assembly of the Institute of Actuaries, that "considering only the nationalization of the home railways and the electricity undertakings and the purchase of the Argentine railways, the effect will be that some £1,366 millions of new Government stocks will have been created, that officially quoted stocks of other classes amounting to some £1,703 millions will have disappeared and that the proportion of Government stocks to the total of Stock Exchange investments will have risen to 65 per cent." It must not be supposed that, compared with pre-war, the offices have not increased their holdings of British Government securities. They have indeed done so in a very emphatic degree, as is illustrated in the table below, showing the distribution of the assets of twelve large offices in four pre-war years and in 1946. In considering the percentages in this table, which is taken from Mr. Weaver's paper, it must be remembered that

PERCENTAGE DISTRIBUTION OF THE ASSETS OF TWELVE LARGE INSURANCE OFFICES

	1913 %	1921 %	1930 %	1938 %	1946 %
Mortgages, including loans on stocks and shares	13.47	8.18	9.73	7.98	3.57
Loans on policies	3.79	2.65	5.78	2.22	.83
Loans on rates	6.73	4.10	3.00	3.27	2.26
Loans on personal security	.40	.11	.03	.02	.01
Loans on life interests and reversions	2.96	1.38	.52	.22	.12
British Government securities	1.40	35.20	22.16	26.56	45.46
Municipal and County (U.K.) securities	1.31	1.52	2.30	4.14	3.01
Indian, Dominion and Colonial Government securities	3.70	5.16	5.45	4.96	3.38
Indian, Dominion and Colonial Provincial securities	.99	.47	.28	.22	.10
Indian, Dominion and Colonial Municipal securities	4.01	2.01	1.75	1.05	.46
Foreign Government securities	4.63	5.82	5.33	4.51	3.63
Foreign Provincial securities	.69	.29	.47	.16	.05
Foreign Municipal securities	3.49	1.82	1.32	.46	.11
Debentures	25.77	11.46	18.07	16.61	10.98
Stocks and shares	9.91	6.28	13.58	16.57	16.01
Land and House property, ground rents	8.98	6.47	4.48	5.25	4.16
Life interests and reversions	1.66	.56	.19	.06	.03
Miscellaneous	6.11	6.52	5.56	5.74	5.83

the total funds of all the British life offices increased in the ordinary branch from £984 millions at the beginning of 1938 to £1,244 millions at the beginning of 1946. Thus, for example, the slight percentage fall during those years in stocks and shares hides a moderate absolute expansion—an expansion which by now is much more pronounced.

Increased Popularity of Assurance

So much for the "sap of compound interest". What of the amount of assurance business transacted? As was recorded in an article in the March issue of THE BANKER, an all-time peak of new business, measured by the aggregate of sums assessed, was reached last year. Even though the continued depression of interest has caused some post-war jumps in premium rates to be superimposed upon the upward climb begun in 1938, there was an unprecedented demand for policies in 1947, both for investment and for family-protection. The offices are still very active in issuing policies and though some

report that the levels of last year may not be reached in 1948, it is doubtful whether the aggregate of sums assured will show any decline on the 1947 figure.

The " family-income " type of policy, under which there is payable on death a capital sum plus an annual (tax-free) amount for the remainder of a period of years fixed at inception, remains very popular. Group-life assurances are still in demand, despite the coming in of the new national insurance scheme last month, but one or two offices, among those which specialized in this class of assurance, have shown themselves rather less willing to underwrite as much of the business as previously. While family-income and group-life assurances are important elements in the life assurance system, it must be emphasized that the premium value of these kinds of policies—and, therefore, their ultimate significance to the offices—is much less, in comparison with straightforward endowment and death policies, than would be suggested by a bare recording of the sums assured under them.

Mention of the new national insurance scheme makes it necessary to point out that the death grant, amounting to £20 when an adult dies and a smaller sum when a child dies, will have no effect upon life assurance new business of the ordinary type (with which alone this article is concerned), for this business comprises policies of much larger amounts which are therefore non-competitive with the death grant. (Incidentally, even in the industrial branch of life assurance, where premiums are collected at the door and sums assured are small, the scheme is not expected to have any marked depressive consequences.)

Another kind of assurance contract which has received much attention recently is the annuity. There has been a heavy demand for annuities, as must be expected at any time of low interest rates, when the compulsion to live on capital is obviously greatly increased. Indeed, the purchase of an immediate annuity from a life office has become one of the most convenient and most remunerative ways of consuming capital. And this is so despite its suffering from the signal defect that when issued in the form of an annuity for an uncertain term of years (for example, the life of the annuitant) it attracts tax on the whole amount of the annual payment, not only on the " interest " portion but also on that portion which on any reasonable view can only be regarded as the return of the original capital. An annuity for a term certain, on the other hand, is taxable only on the interest portion of the annual payment. In recent years the offices have taken advantage of this rather extraordinary provision of the law by selling " split-annuities " (sometimes called " capital annuities " or " capital and income policies "), consisting of an annuity for a fixed period of years, taxable only on the interest element, *plus* another annuity, all taxable, for the remainder of the annuitant's life, if he survives the stipulated period of the annuity certain. There has, indeed, been something of a vogue in these split policies and they are largely responsible for the large amounts received by most offices as considerations for annuities.

Recently, however, there has been another development which sets a series of question marks against the whole subject of annuities. The Wesleyan and General Assurance Society issued a policy under which the sum payable at death was a multiple of the number of months for which the policy had run and which, further, gave an option to the policy-holder to borrow sums not exceeding the lump sum which would have been payable if death had occurred at the time of the loan. The policy-holder borrowed the maximum amounts,

receiving a monthly payment from the Society. It was decided by the House of Lords in March that these payments were not taxable. This decision clearly makes it possible for assurance offices—and, some may argue, obligatory upon them—to issue policies in this form as a simple variant of the ordinary life annuity and to save their annuitants tax upon the periodical payments. It is true that the present favourable tax treatment of the annuity funds of the life offices (from which the annuitants indirectly benefit) might not then endure. This favourable treatment arises from the fact that most offices simply pass to the Inland Revenue, as the taxation on their annuity business, the tax they have deducted at source from the annuities payable to their policy-holders. If these deductions were drastically reduced—as they would be in the event, for example, of the offices allowing surrenders of existing annuity contracts and purchases of policies in the new form with the proceeds —then the alternative basis of taxing the annuity business, which is provided for in the present tax law, but is rarely operative because it usually produces a smaller tax liability, would generally apply. Under this alternative, the offices would pay tax on the investment income of their annuity funds and on the profits earned on their annuity business. However, to the extent that former holders of annuities converted into life policies in the new form, annuity funds would decline and life funds would expand: tax would thereupon become payable by the offices on the enlarged interest earnings of their life funds. Should the existing law not be changed, it would follow that annuitants would not gain so much as appears at first sight, because the tax payable by the offices on their investment income and annuity profits would constitute an indirect deduction from the more obvious direct saving of tax made by the annuitants. Nevertheless, provided the alternative bases of assessing the offices to tax remained unamended, there would still be a substantial *net* saving to the annuitants.

Whether the new form of policy will be generally followed is, therefore, a question of some moment. The Wesleyan and General is apparently itself awaiting the reaction of the Inland Revenue to the House of Lords' decision and the other offices do not seem yet to have taken any action. The Inland Revenue is considering the whole question at the present time. It seems probable that the law may be changed, but in what manner is still open to surmise. Meanwhile, regardless of the taxation position, purchases of annuities continue at a high level.

The Decline in Deaths

A further feature of recent assurance experience has particular relevance to the annuity business of the offices. A remarkable and persistent decline in mortality rates has been in evidence for some years. War and post-war conditions, which might have been expected to increase mortality, have in the event reduced it, mainly because of the great forward steps taken in medicine and surgery. This improvement in mortality rates has provided a credit margin for the offices on their assurance business, which has been especially welcome as helping to offset the effects of the diminution in interest rates.

The actuary of the National Mutual Life Assurance Society stated recently that "some offices are experiencing mortality some 15 per cent. to 20 per cent. lighter than the latest actuarial tables of 1924-29", upon which premiums are mainly based. Indicative of an even greater saving due to the shortfall

in mortality are the remarks of the vice-president of the Institute of Actuaries in the discussion on " Demography and Mortality " at the Centenary Assembly of the Institute. He said that in the great towns of England and Wales, with populations aggregating some 20 millions, the deaths during the present year to date numbered less than 80 per cent. of those in the corresponding period of the previous year. There had, he continued, been some small increase in the populations of the great towns between those two periods and probably some ageing of the population, so that the quoted decline in the rate of mortality was lower than the corrected figure would be for an unchanging population. He added that there was every sign that the rates of mortality were the lowest ever experienced in this country.

In the annuity branch, however, the reduction in mortality tends to have the opposite effect ; if it simply implies a longer duration of life for the average annuitant, the change works to the detriment of the life office unless, as is unlikely, the office has completely anticipated the trend for a considerable number of years ahead. It is not entirely figurative to say that penicillin and the " sulpha " drugs are coming to the rescue of the *rentier* who, despite the euthanasia pressed upon him by the Treasury's interest and taxation policy, still tries to live on a life office annuity.

To be sure, it has not been generally agreed in the past that reduced mortality in the population as a whole will probably lead to a longer duration of life in the upper age groups. There has been some tendency, among actuaries as among others, to consider that reduced average mortality, by preventing the operation of the principle of the survival of the fit, increases mortality among the older sections of the population (" disease breeds vitality "). An interesting paper presented at the Centenary Congress by A. Pedoe, of Montreal, convincingly demonstrated that this view is in most conditions erroneous. With the general conclusions of this paper (1) " that disease breeds disease and death, not vitality ", and (2) " that if disease is reduced vitality is increased ", most of those actuaries who joined in the discussion at the Congress expressed agreement. There was support also for another equally interesting and not necessarily incompatible argument put forward by R. D. Clarke, of London, to the effect that there is a lower limit to the death rate. This limit exists because improved mortality does not lengthen the life-span—does not reduce " senescent deaths ", which are determined by genetics rather than medicine, accidents and disease—but only reduces deaths occurring before the life-span has run out (" anticipated deaths "). It may, however, be remarked that even if senescence does set the limit to mortality improvement, there is nevertheless a vast scope for amelioration by way of reductions in " anticipated deaths ".

This discussion on mortality was to at least one observer the high-light of the Centenary Congress. It illustrated that since the war a new era appears to have set in so far as mortality is concerned ; that, as at present constructed, mortality tables show a very great margin of error ; that if the improvement continues at the present rapid pace, the nice calculations of actuaries, both in regard to life assurances and annuities, will be thrown out of balance ; and that though, fortunately, the divergence on the one branch of the business will tend to correct that on the other, to maintain their traditional conservative attitude the life offices will have to be rather readier than in the past to extrapolate improved mortality in quoting for the sale of annuities.

Fire Claims Ratio Rising

By a Special Correspondent

THE factors at work and problems arising for Fire Insurers during the past year have been broadly similar to those of the first post-war years described in previous surveys in THE BANKER, but some of these influences—notably the effects of the inflationary rise in prices—have latterly been even more strongly felt. The figures quoted below represent the aggregated results of nineteen of the foremost Fire Offices, all of which transact a large volume of business at home and overseas. The majority have important organizations in the United States, experience in which, as is generally known, exerts a marked influence on the final world-wide results of British insurance operations. The figures we have computed may therefore be taken as a fair cross-section of the fortunes of Fire insurance business as a whole over the past three years.

	Premiums	Claims		Expenses		Profit	
	£	£	%	£	%	£	%
1945 ..	58,916,884	27,129,976	46.0	29,999,237	44.1	3,863,508	6.6
1946 ..	72,204,217	31,418,933	43.5	31,686,251	43.9	3,619,411	5.0
1947 ..	87,687,796	43,315,086	49.4	37,621,622	42.9	2,148,000	2.4

The rapid growth of premium income, it will be seen, has continued, and recently the rate of increase has, if anything, accelerated. This expansion derives largely from the now fully recognized inflationary tendencies both at home and abroad; and rising commodity prices have in their turn engendered so far an unceasing upward revision of insured values. The somewhat febrile development of premium income ensuing therefrom has not been much to the liking of insurers, who have tolerated rather than encouraged it; further pressure has been placed upon the "direct-writing" and reinsurance markets in their efforts to absorb liabilities which are abnormal when measured in monetary terms. Premium figures as published have also been affected, to some extent, by the decision taken by Offices to convert their U.S. dollar incomes at the current official rate of exchange instead of the notional rate of $4.8 or $5 hitherto employed; on the other hand, a number of them have taken the opportunity to "trim the ship" by discarding, where possible, a portion of the heavier class of their commitments in America. These two factors roughly cancel out, leaving a significant accretion of premium traceable to the other causes mentioned.

The increase shown in 1947 in the claims ratio was not unexpected; it can, in fact, be ascribed to the same underlying economic conditions that have swollen the premium income. The unsatisfactory aspect of the matter from an underwriter's viewpoint is that whilst income, due to under-insurance and reluctance on the part of the general public to face a much increased bill for insurance, has not fully kept abreast of the greater values at risk, loss payments invariably reflect to the full the present heavy cost of indemnity or replacement of damaged property. Premiums are soaring—with an increase in 1947 of 21 per cent.; yet claims are climbing more steeply, with an increase of 38 per cent.

Estimated fire wastage in the United Kingdom rose from £12,047,000 in

1946 to £19,811,000 in 1947 and for the first five months of 1948 had already exceeded £7,900,000 ; in the United States the stupendous figure of $692,635,000 was reached in 1947 ; and the total for the first five months of 1948 was even more ominous, at $331,774,000. In many other countries the situation is not essentially different. Given this background, it is easy to see how even a rapid expansion of premium income, when it arises from such causes as these, can become a source of embarrassment affording not the slightest reason for complacency or relaxation.

It is noticeable throughout the fire insurance field that the physical hazards of fire have been aggravated by obsolescence of plant and machinery, by inferior maintenance facilities and by carelessness of personnel. In that branch of the business known as Consequential Loss, which provides cover against the adverse financial consequences of a fire—as distinct from the material damage caused—an indemnity period of twelve months was in pre-war times easily sufficient, as a rule, to see an afflicted business on its feet again. Now, however, cover for periods of three or even five years is frequently sought and it is a far more difficult matter to assess the nature of the liability incurred. This is but a random example to illustrate how in such circumstances the highest degree of underwriting acumen, judgment and experience need to be called into play. In the discharge of its dual responsibilities—to the community and to policy-holders—the insurance business during the past twelve months or so has faced a searching test, demanding an intense study of risk merit, supervision and rating. There are probably equally stiff times ahead, and these, no doubt, will be met in similar fashion.

Catastrophies are to be regarded as something apart from the normal trend of losses ; the past year witnessed explosions of great violence at Texas City, Cadiz, Brest, and Mitholz (Switzerland). All except the last-mentioned, which was a munition dump in the mountains, occurred in port areas and involved the storage or handling in bulk of dangerous chemicals. These grave disasters, with serious death-rolls, differed from most catastrophic events in that they arose solely through human fallibility. Fortunately, they therefore forced home upon the public at large the risks to which congested industrial areas are exposed. Stricter measures of control have been promptly and widely introduced, and there has been no recurrence during the present year. The recent conflagration in Castries, St. Lucia, is, however, a reminder that the older forms of catastrophe hazard run concurrently with the new.

No survey of contemporary claims experience would be complete without reference to the social disorders and strife that have festered up in so many areas overseas, ranging from open hostilities in Palestine and rioting in the Gold Coast to inspired hooliganism in Malaya. Riot risks will continue to be estimated very seriously indeed by the Fire Offices, which in the past twelve months have had to meet heavy claims. The wisdom of experience was, however, brought to bear on this problem at a very early stage, with the result that there is no likelihood of funds being depleted for the benefit of those who seek this form of protection only when the threat has become a certainty.

A glance now at the Offices' expense ratios, which include commissions, salaries, management expenses and all items of outgo other than loss settlements, shows an improvement sustained since 1945. At a time when administration costs of most social services in the country are bounding up, it is indeed

a sign of health that the highly competitive insurance market has been able, despite inevitably higher charges encountered in numerous directions—prominent among these being foreign taxation—to gear its own ratio of working expense so satisfactorily. In this respect a measure of assistance has been gained from expanding revenue, since some categories of expense do not need to rise in direct proportion.

The average margin of profit of 2.4 per cent. produced by the 1947 accounts is slender—it is less than the modest level of either of the two preceding years. Fire underwriting profit, it should be emphasized, arises only after provision has been made for an adequate reserve for unexpired risk, and in periods of premium fluctuation this reserve will move in sympathy. Quite substantial additions to reserve were made in 1947 as a direct consequence of the heavier liabilities carried by Insurers, and profits were smaller accordingly. Over periods of time sufficiently long to embrace a full cycle of economic causes, this feature generally proves to be self-compensating.

Lean Times for Accident Insurers

By a Special Correspondent

MANY of the recent tendencies in Accident business parallel those in Fire insurance discussed in the preceding article. Here, too, the salient features can conveniently be illustrated by figures embracing the various forms of cover written under the general heading of Accident insurance and aggregated for the same nineteen large Offices.

	Premiums	Claims		Expenses		Profit	
	£	£	%	£	%	£	%
1945 ..	64,750,881	33,319,059	51.5	25,798,105	39.8	2,874,370	4.4
1946 ..	81,714,098	44,416,465	54.4	31,699,597	38.8	−869,995	−1.1
1947 ..	106,910,365	53,447,738	54.7	40,456,589	37.8	− 69,870	−0.1

It is noteworthy that Accident premium income, which was running slightly ahead of Fire in 1945, had by the end of 1947 increased its lead very considerably, the advance over its own 1946 level being nearly 31 per cent. It has, however, been difficult to keep the cost of claims under control; the total has risen during the last year by approximately 30 per cent. The claims ratio of 54.7 per cent. remains obstinately high in view of the rapid expansion of income, for it has to be borne in mind that a large proportion of the latter relates to liabilities not yet run off: if one were to anticipate the claims cost of this outstanding liability and squeeze it arbitrarily into the 1947 account, a more accurate picture would be gained of the actual underwriting experience of the year.

The motor account plays a prominent rôle in Accident accounts, and since the war the insurance offices have had a hard struggle to keep pace with the vicissitudes of the petrol ration. After the earlier reintroduction of basic petrol, it grew apparent that rates were much less than adequate and insurers terminated the special war discount of 20 per cent. halfway through 1947

and also drafted other revisions in rating. In October the basic ration was withdrawn, entailing much work in suspension of policies, and a contraction in business which brought little or no respite to insurers since it was not related to selectivity and improvement of risks. The revival of "basic" early in 1948 brought this time the extra work of reinstating policies and also a certain wave of feeling that motor insurance was now too expensive in relation to the extremely limited scope of motoring afforded by the new ration. Understandable as this reaction might be, it was woefully inaccurate in the face of the hard experience of insurers; the real question is not one of concessions but rather how long further rate increases, justified by an ever-rising claims cost, can be avoided.

In the majority of foreign countries, conditions have been difficult, even though official restrictions may not have borne so hardly on underwriters' functions. An enormous increase in automobile business has developed in the United States by reason of the hordes of over-age vehicles that have been pressed back into service *faute de mieux*—a feature which has been accompanied, not unnaturally, by an unprecedented crop of road accidents. Drastic loadings on rates for both the collision and liability sections of cover have not yet sufficed to stem the adverse tide. The situation has a touch of irony in that these measures accentuate the premium flow on which, under the American system, stringent reserves are based. It has thus been necessary to provide for exceptionally large reserves at a time when underwriting margins are exiguous.

The growth of burglary and theft has been notorious and there is probably no area in the world to-day where such risks may be freely written. The underlying causes are so patent that to enlarge on them would merely be repetition of common knowledge; whereas jewellery and family plate once held pride of place in the eyes of those who operate on the wrong side of the law, an equally enticing prospect is now offered by warehouses, industrial stocks and all kinds of goods in transit. Almost anything, in fact, is worth stealing.

Aviation insurance assumes with each succeeding year an additional importance and carries its own problems of a different character. Very high values are often at stake in individual aircraft, to say nothing of liability towards passengers. The tragic disasters we hear of all too frequently are generally total losses involving very large insurance payments. The mechanism of reinsurance tends to become complicated and underwriting results are prone to fluctuation. There is no doubt, however, that aviation insurance is destined to play a leading rôle in the future, and it may confidently be expected that a greater degree of stability will be achieved in its operations.

Underwriters of third party liability insurance have never been slow to complain about the upward tendency in the sums awarded by the Courts as damages. Certainly, they have lately had to bear a heavy burden. The daily Press abounds with examples, such as the award recently of £12,000 damages against Portsmouth Corporation for negligent treatment of a patient in a hospital maintained by the Corporation, and the assessment of damages of £11,250 in favour of a family severely injured in a domestic boiler explosion. Then there was the significant case of an award of £2,500 against a jay-walker. Common law liability is, like most things, far more expensive than it used to be. Third party business is normally a satisfactory class and did not disappoint

in 1947. The call for vigilance here is that competition should not force rates down to unremunerative levels.

On July 5, 1947, the National Insurance (Industrial Injuries) Act came into force. Briefly, this legislation brought within the aegis of a national scheme a large section of workmen's compensation insurance which had hitherto been placed in the normal insurance market. There will, however, still remain outside the national scheme important common law and statutory liabilities of employers. These risks will continue to be taken up by the Companies and Lloyd's, subject to some reconsideration of the rating structure for this class of business.

Throughout the whole of the accident insurance field it has become abundantly clear that, in devious ways in the various branches of the business, one malevolent common factor is at work, namely, inflated monetary values occasioned by economic scarcity. It has distorted the normal tenor of claims settlements and is responsible more than any other factor for the lean results of the past two years. In present conditions, a great deal of insurance protection is being provided at less than cost price ; this cannot, of course, be regarded as other than a transitory and undesirable state of affairs which the Companies themselves, with their vast experience of the swinging pendulum in such matters, will rectify without undue perturbation and certainly without rash action.

A Longer "Tail" in Marine Risks

By a Special Correspondent

THE poet Horace once commented favourably on the courage of the man who first launched a ship on the sea. If Horace were alive to-day and were to pay a visit to Lloyd's, he might extend the compliment to the man who insures the ship after it has been launched—a venture which, on paper, at any rate, can be made to appear as bold as any ever undertaken by commercial man.

When an underwriter insures a fleet of steamers he gets a lump sum down in cash, and in return for that payment he promises to meet all total losses, general averages, salvages and running down liabilities, and to carry out, almost irrespective of cost, any repairs due to stranding, sinking, fire, heavy weather, negligence of the crew, latent defect, barratry and piracy. And he gives this undertaking, the most comprehensive indemnity in the whole sphere of insurance, without stipulating the period in which the repairs must be carried out ; with no qualification about rising costs or prices ; with no escape clause of any kind. The incident that gives rise to the repairs must happen within a stated twelve months ; but the work may be—and very often is—deferred for years after the casualty, and in the interval anything may have happened to prices. Inflationary politicians may have been in power in every country of the world, and they may have run the price level up to a point far higher than any contemplated when the risk was written and the premium fixed. The cost of steel plates may have been trebled and wages increased fourfold. The ship may have met with one casualty after another, and for every separate casualty

the underwriter will be liable for the repair bill, no matter how prices have risen, right up to the full insured value of the hull and machinery. In theory he may have to pay that value three or four times over for repairs and a total loss on top of the lot.

Since 1939 this time lag, what underwriters call " the tail ", has been of unusual importance, because shipowners have been too busy to send their boats into dry dock, and repair yards too busy to do the work when the owner is ready to have it done. The " tail " has lengthened as repairs have been deferred, and an underwriter's monthly figures of claims settled have come to mean much less than they did in pre-war days, when repairs were started and carried out with normal speed. How much this change has affected time underwriters' figures is shown by the requirements of Lloyd's annual audit, which stipulates, year by year, the percentage of his premium income that the underwriter must have in his trust account in respect of each year's underwriting. In 1938, to pass the audit, an all-risks time underwriter had to show cash and securities in the account equivalent—assuming that his premium income was the same in each of the years—to 115 per cent. of the annual income. In 1948 the corresponding figure was 186 per cent. The difference between those two figures is the Committee's valuation of the post-war " tail " in all-risks time underwriting. Even now, three years after the end of the war, the liability for deferred repairs is impossible to calculate, and there is small sign in Great Britain or in America of a check to the rising cost of work in the shipyards.

In these circumstances it is not surprising to be told that the year 1947 was not a good one for time underwriting—and (at any rate by recent standards) it certainly was not. The settlements in the first year of the account were, even for cautious underwriters, much higher than in previous years, and it is unlikely that any one with a substantial account had settled less than 20 per cent. of his all-risks premium by the end of December.

The obvious inference to draw from this fact would be that the chickens have been coming home to roost, and the rising cost of repairs has begun to

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outstrip the premium income. But that is not the complete explanation. The rising costs, no doubt, had much to do with the results; but the major cause was an epidemic of total losses which, for some reason, afflicted our shipping in 1947. Not for years had there been marine losses comparable to them, and some of the underwriters who specialize in total loss business—generally considered the safest section of the time market—are in the red. They face not merely a prospective loss as the year runs off, but an actual loss already ascertained, without taking into account claims known but unsettled, and with about 20 per cent. of the year's liability still to go.

In this matter there was a noticeable difference between American and British tonnage, the total of American losses falling, while the British total rose, the reason presumably being that a much larger percentage of American shipping is laid up and out of action. According to the returns of the Liverpool Underwriters' Association, the figures in 1946 and 1947 of British steamship tonnage lost from marine perils were as follows:

	(Tons)			
	1946	1947	Increase	
Steamers	65,243	114,446	+ 49,203	+ 75.4%

The year 1946 was a light period for total losses and the 75.4 per cent. is not so bad as it might appear to be at first sight; but the increase, however considered, is remarkable, and all one can say about it is that it is one of those natural phenomena that are undeniable and inexplicable. But the most curious thing about it is that the run of total losses seems to have ended as suddenly as it began, for the first half of 1948 has been kind to the total loss underwriter, and if the year goes on as it has started, the figures next January should show a different and much more satisfactory result.

In spite of all the adverse conditions—rising costs, delayed repairs and postponed surveys—it must be admitted that the past ten years have not been unprofitable to all-risks time underwriters; and most of them, if asked the reason, would almost certainly acknowledge their debt to the joint hull agreement, which fixes year by year the rules for the rating of fleets, and aims at keeping renewals on a profitable footing. Whatever views an individual may hold about tariffs and rate agreements, it cannot be denied that this particular market understanding has been faithfully observed, and has been an aid to successful underwriting. Circumstances have made its observance easier than it would have been in normal times; but as a piece of rate maintaining machinery it has worked, from the underwriter's standpoint, well. But it is sometimes useful to stop and take a look at even the most efficient machinery, and it may not be out of place here to examine this particular device after the first eleven years of its history.

The predecessor of the present agreement collapsed between the wars under the strain of low freights, falling values, and competition in the insurance market; and for several years the rating of time risks was a matter of individual judgment and free bargaining. The "lead" was generally respected and Mr. *A* would not openly cut in to quote for a fleet hitherto led by Mr. *B*. But there was no rating formula; and at every renewal the leader of the slip was free to quote whatever rates seemed reasonable to him after he had discussed the risk with the broker.

In 1937 conditions changed and a new agreement—the agreement that has been in force ever since—was reached. The object of those who designed it was to penalize fleets with bad records, to prevent the forcing down of rates by powerful brokers and their important clients, and to meet conditions as they worsened or improved by timely adjustments according to a formula, which the Joint Hull Committee would work out and impose on all underwriters inside the shelter of the agreement. They wanted the scheme to be secure but not inflexible, and to give the Joint Hull Committee each returning year scope to raise or lower the general level of time rates, at the same time punishing the bad and encouraging the good owner. Like the modern penal system, the plan was to be reformative and deterrent without being vindictive.

Under the instruction of the Joint Hull Committee the underwriter quoting for the renewal of a fleet must first grade it according to its recent results, comparing them with certain percentages in force at that particular moment. He takes the premiums and the claims of the last three completed years and, with a side glance at any specially bad claims outstanding on the current risk, he works out the percentage of claims to premiums. That percentage settles the grade of the fleet for that year, and the grade settles the rate the owner will be charged.

If the recent record of a fleet is particularly good it goes into grade 1 and receives the most favourable treatment. If the Joint Hull Committee thinks that general conditions are improving, underwriters are told that they may give these fleets a reduction in premium, and are advised just what the reduction may be. If conditions are stationary, their rates will not be changed. If conditions are thought to be getting worse, underwriters will have to increase the rate by a percentage given to them by the Joint Hull Committee.

The fleets in grades 2, 3, 4 and 5 are those with less good records, their claims amounting to a larger percentage of their premiums. They will have to pay a higher rate. The Joint Hull Committee fixes the premium percentage of increase for each of these four grades, and that percentage will have to be enforced by underwriters. The increase is compulsory. At the present time the official scale for grades 1 to 5 for fleets of less than £400,000 value is as follows :

		Minimum
Grade 1.	Claims less than 50% of premium	No increase.
Grade 2.	Claims more than 50% and less than 60% ..	5% increase.
Grade 3.	Claims more than 60% and less than 70% ..	10% increase.
Grade 4.	Claims more than 70% and less than 75% ..	20% increase.
Grade 5.	Claims more than 75%	25% increase or more.

For fleets more than £400,000 in value the corresponding scale is :

		Minimum
Grade 1.	Claims less than 55%	No increase.
Grade 2.	Claims more than 55% and less than 70% ..	5% increase.
Grade 3.	Claims more than 70%	10% increase or more.

That arrangement, with the figures varying year by year at the dictation of the Joint Hull Committee, is the arrangement that has been in force for the last eleven years. Every year the rate on a fleet is the last year's rate amended by the Committee's formula. Last year's rate was last year but one's, amended

by the formula then ordained. Last year but one's was last year but two's, so amended; and so on till we get back to the original premium, which was fixed by the leading underwriter on the risk. The rate year by year has been altered, patched, lengthened, shortened or left unchanged as the fashion kings have decreed. If that central authority decides that rates shall be worn fuller this summer, then the change must be made even to rates which are already over-full. If skimping is enjoined, then owners will probably get the benefit, though perhaps they may not all deserve it.

The scheme is, in fact, a curious experiment in scientific underwriting. So long as the agreement operates, the most important moment in a boat's insurance career is obviously the moment when the rate on it is first fixed; for (unless it changes ownership) that is the basis on which all the rates for the rest of its working life will be built. If for some reason, possibly outside the owner's control, it is rated high at birth, it will be rated high till death; and, except in unusual circumstances, if the rate starts low it will remain low. It is almost true to say that when the underwriter has rated a boat once his job is finished till the boat is sold or broken up. Thenceforward, year after year, the rating is almost mechanical—determined by the central authority. All the underwriter has to do is to get the figures of past premiums and claims correct, and calculate with arithmetical accuracy the current percentage of increase or decrease ordered by the Joint Hull Committee. The detached observer may be tempted to wonder whether the great skill, experience and ability of the many underwriters who constitute the time market, are fully extended in the discharge of these functions.

But the scheme has worked and produced satisfactory underwriting results. It is true that underwriters, like merchants, have been enjoying a seller's market, and many of them are less concerned about new business than about the premium limits of their names fixed by the Committee of Lloyd's as a check on the size of their account. That helps a good deal, and the testing time of the agreement will not come till the value of tonnage falls, till owners want less cover instead of more, and are driven by necessity to worry more than they do to-day about their working costs.

In the cargo market first-year settlements on the 1947 account are, in general, heavier than they have been in recent years. The combined marine surcharges, in their simplified form, are still being charged and the C.M.S. agreement seems to be as firm as it ever was. It has, in the last year or two, been the subject of much discussion among underwriters and brokers, and the arguments for and against it have been repeated *ad nauseam*. But it is still worth while to mark the difference between it and the joint hull understanding. There is not and there has not been any open talk of the joint hull being given up; but in debates about the merits of the C.M.S. it is admitted—indeed, it is one of the main points of the defence—that they are a temporary device and will be abandoned as soon as they cease to be necessary. One has the feeling when this declaration is made that one is sitting by the cot of another infant industry; and (as we all know) the best established law of political economy is that infant industries do not grow up. It is unlikely, however, that this particular baby, bred, born and suckled in the luxury of a hot house, will live long when the frosts of deflation set in and the blasts of competition blow more keenly. And its death may be a painful process.

International Banking Review*

Canada

THE Minister of Finance has revealed that the Dominion's gold and U.S. dollar reserves have now recovered to $742 millions from the low level of $461 millions reached last December. The improvement is attributed, in the main, to the effect of the import restrictions imposed upon U.S. goods last November.

Figures published in Britain show that Canada received U.S. $130 millions in the April-June period from " offshore " purchases of Canadian goods made with Britain's Marshall allocations.

Chile

Trade and financial negotiations with a United Kingdom delegation have resulted in an agreement which transfers Chile from the American Account group to the Transferable Account group of countries for British exchange control purposes. It is hoped that this will enable Chile greatly to increase her trade with sterling area and other countries. This trade has suffered severely from the fact that Chile has ranked as a dollar country for the purpose of exports to the sterling area.

Eire

Trade returns for the first five months of the year show the biggest adverse balance ever recorded, with imports at £63.9 millions against exports of £16.5 millions.

The four-year trade agreement signed with the United Kingdom provides for an expansion, on a long-term basis, in food production in Eire for disposal in the U.K. market. Immediate shipments of fat cattle to Britain are to be stepped up by restricting sales to continental countries—to 50,000 this year and to 10 per cent. of available supplies in future years.

Arrangements, details of which have not been disclosed, have been made to redress Eire's adverse balance of payments with the United Kingdom and to reduce her drawings on the sterling area dollar pool.

France

The Coalition Government of M. Schuman was defeated in the Chamber on July 19 and thereupon resigned. Its downfall arose specifically from M. Schuman's refusal to accept a Socialist amendment for a reduction in the military budget, but a major cause of the defeat and of the differences between the several groups in the Coalition was the Government's failure to arrest the rise in the cost of living, and thus to calm the industrial unrest and prevent the recurrent strikes. Shortly before his defeat, M. Schuman had, indeed, announced a limited new experiment in price reductions, ranging from 5 to 15 per cent. over a wide field, including iron and steel products, building materials, chemicals and timber.

Free trading in gold has been completely restored in France by an official

* Other current international banking news is discussed in "A Banker's Diary", on pages 61-66

order permitting gold for industrial purposes to be freely dealt in and smelted. The Government has also authorized the establishment of a forward market in dollars in the free foreign exchange market in Paris. The facilities of the market are available only for export and import purposes.

Germany

The West Germany currency reform, full details of which will be found in a special article on page 73, is officially stated to have been carried out "remarkably successfully". It has also been claimed that the time is not ripe for the introduction of an international exchange rate for the new Deutsche Mark. The value of 30 U.S. cents fixed for the mark earlier in the year for internal purposes remains in force. The third and last ordinance of the currency reform fixed a conversion rate of one new Deutsche Mark for every ten old marks held on bank accounts and established conditions for the release of such balances. All private debts, except bank debts, have been scaled down to one-tenth of their former amounts. The public debt has been cancelled and replaced by 3 per cent. State bonds.

Taxation reforms introduced in the three Western zones of Germany provide for an overall cut of 33⅓ per cent. in income and wages taxes, a cut in the property tax for individuals and corporations, a revision of the inheritance tax, the re-introduction of the capital transactions tax at a rate 50 per cent. above the pre-war level and a heavy new excise duty on raw coffee.

Greece

The Governor of the Bank of Greece has paid a visit to London for financial and trade discussions with British officials. One of the subjects under review was the future of the International Finance Commission which was established in Greece in 1897 to supervise the servicing of Greek foreign bonds. Some time ago the Greek authorities requested that this body should be wound up, on the grounds that the supervision of the foreign bond service was a task within the capabilities of the Greek Government.

Hungary

It has been officially stated that registered foreign shareholders in Hungarian industries which have been nationalized will be safeguarded even if they own a minority of the shares. The official communique quoted the text of the law providing for further legislation to cover the question of compensation to foreign owners of minority shareholdings in Hungarian concerns. The time limit for the registration of compensation claims by foreign shareholders in nationalized industries in Hungary has been extended from June 30 to August 31.

Italy

Arrangements have been concluded with the British Government for the purpose of giving effect to clauses of the Anglo-Italian Financial Agreement of April, 1947, dealing with the procedure for the payment of moneys due from Italian debtors to United Kingdom creditors and with the release to Italian owners of their property in the United Kingdom.

Payments in respect of Italian commercial debts and of Italian bonded indebtedness, which is also being begun, are being financed by drawing on Italy's accumulations of sterling.

Netherlands

The negotiations with the Netherlands regarding financial aid to the N.E.I. have been successfully concluded. It is proposed that the N.E.I. shall benefit from the Marshall Aid given to the Netherlands, and, in the first instance, will be granted assistance through deliveries of goods amounting to Fls. 100 millions. Arrangements have been made for the settlement of N.E.I. indebtedness, after debts incurred by the N.E.I. under guarantee of the Netherlands as well as their direct debts to the Netherlands have been taken into account. Henceforward if the N.E.I. wishes to give guarantees to foreign creditors, preliminary consultation with the Netherlands must take place, but such guarantees must not in any case infringe the security given to the Netherlands.

Interest on Dutch credits granted to the N.E.I. will start to run immediately, but no amortization will be effected until 1951.

It has been agreed between the two Governments that a first essential is the establishment of a stable political situation in the N.E.I. whereby confidence can be restored, foreign capital attracted and private enterprise encouraged to undertake larger investments.

The nationalization of the Netherlands Bank is effective from the beginning of August. The shares of the bank will be transferred to the State, shareholders being indemnified by registration in the public ledger of the 2½ per cent. National Debt for double the nominal amount of their holdings.

New Zealand

The Government's London conversion offer to holders of the 1948-58 Inscribed New Zealand stock, which is being redeemed, took the form of a 3 per cent. stock, 1966-68, offered at par. A total of £16 millions of the new stock was offered for conversion or for cash. The balance of £3,225,465 required to pay off the holders of the maturing stock is being provided by drawing on the Dominion's sterling balances. The issue was not underwritten in the market, and the Reserve Bank of New Zealand subscribed for the 53 per cent. not taken up by the public.

Pakistan

The State Bank of Pakistan began operations on July 1 and issued its first statement on July 5 covering operations to July 9. Total assets of the bank were given as Rs. 1,141 millions, of which Rs. 996 millions was represented by balances held outside Pakistan, including cash, short-term securities and balances with the Reserve Bank of India. Notes were shown at Rs. 30 millions. The account of the Issue Department of the bank made up to the same date showed total assets of Rs. 593 millions ; this included sterling securities valued at Rs. 345 millions, gold coin and bullion held with the Reserve Bank of India pending transfer of Rs. 17 millions, and Rs. 137 millions in Indian Government securities.

Peru

A new payments agreement has been signed with the United Kingdom, the effect of which will be to exclude Peru from the American Account group

of countries. Payments between the two countries will henceforward be covered by a bilateral sterling agreement with provision for administrative transferability.

United States

The Secretary of the Treasury has announced that the true Budget surplus for the fiscal year ended June 30 was $8,419 millions, the largest ever recorded. It was the product of total expenditure of $36,326 millions and total revenue of $44,745 millions. In accordance with the direction of Congress to take $3,000 millions from the surplus and set it on the books as an advance credit against spending in the new fiscal year, this amount has been placed to the credit of the European Recovery Programme. It is thought that this book-keeping transaction will avert the danger of a deficit on the budget for 1948-49.

Coal Board's Banking Arrangements

THE first annual report of the National Coal Board (for the year ended December 31 last), which is discussed in a Note on page 62, gives a comprehensive account of the Board's activities and of the structure it is erecting. This includes a detailed explanation of its banking arrangements, which deserve to be put on record here, and accordingly are reproduced verbatim. Elsewhere the report records the Board's much-discussed practice of receiving payment in bills of exchange in those cases in which payment by bill was formerly customary among the collieries which have been taken over. At the date of the accounts £110,768 of bills were held by the Board, and £1,330,438 were under discount.

421. New banking arrangements had to be devised and operated from 1st January, 1947. The task was to enable cash to be withdrawn for wages and other purposes at 550 points up and down the country, and to enable cash and cheques received to be lodged and cleared through banking accounts in such a way as to keep the balance of funds held in banks to a minimum. The Board received the whole-hearted co-operation and assistance of the Bank of England, the English Clearing Banks, and the Scottish Banks.

422. The Board's main Banking Account is held with the Bank of England. Transactions on this Account are limited to:

(i) transfers to and from the Minister of Fuel and Power;
(ii) transfers to and from central accounts at Clearing Banks and at the Scottish Banks;
(iii) some special receipts accruing to National Coal Board Headquarters.

423. The account is operated so as to keep the balance within a maximum and a minimum. If the balance rises above the maximum on any day the surplus is transferred to the Paymaster General on behalf of the Minister, thus reducing the Board's debt to the Minister; if the balance falls below the minimum the deficit is claimed from the Paymaster General, provided that the additional amount borrowed from the Minister is in accordance with the Board's borrowing powers under the Coal Industry Nationalisation Act.

424. Central Banking Accounts were opened with each Clearing Bank. The total book balances are kept within a maximum of £6,000,000 and a minimum of £4,000,000. The balances are needed to provide large sums in cash throughout the country for the Board's weekly wage payments, but the Central Banking Accounts (most of which are in London) are not debited until several days after the cash has been withdrawn. Hence, a proportion of the book balances are not effective balances from the point of view of the Banks.

425. The main banking business of the Board is transacted through Area Banking Accounts which were allocated among the Clearing Banks and the Scottish Banks broadly in the same proportions as they shared the banking business of the coal industry before nationalisation. Most of the normal trading transactions with the Board are dealt with through these Area Banking Accounts. All balances on Area Accounts, debit or credit, are cleared daily to the Board's Central Account with the bank concerned, except in the case of the five Scottish Area Accounts which operate as though they were Central Accounts. There are 48 Area Banking Accounts corresponding to the Board's Management Areas.

426. Headquarters and Divisional Banking Accounts (nine in all) which are largely withdrawal accounts, operate on the same principle as the Central Banking Accounts, the maximum balance in each case being £2,000.

427. Immediately after nationalisation it was not possible to concentrate the Board's accounting arrangements at the Area offices and therefore banking accounts for Lodgement and Drawing had to be operated by the various Coal Board Units, which carried on activities formerly carried on by colliery undertakings. Bank balances on the Unit Lodgement Account were cleared daily to Area Banking Accounts and thence to Central Banking Accounts. Unit Drawing Accounts at the banks, on the other hand, were kept in funds by transfers as necessary from Area Banking Accounts. Some suppliers' bills were paid from the Unit Drawing Accounts. Withdrawals of cash for wages, however, were from the outset charged direct to the Board's Area Banking Accounts.

428. The process of concentrating the Board's management at Areas continued throughout 1947. By December, 82 per cent. of Lodgements were being made direct to Area Banking Accounts, and the remaining Unit Lodgement Accounts at banks were to be closed early in 1948. The Unit Drawing Accounts at banks were similarly closed as the Board's Area accounting organisations developed, and in most cases they ceased to operate during 1947.

429. The remuneration of the Clearing Banks (bank charges and interest on balances) was settled on an experimental basis in 1947 and was to be reviewed in 1948 in the light of the experience gained.

Appointments and Retirements

Barclays Bank—Mr. D. Balfour, Mr. T. D. Barclay, Mr. A. C. Barnes, D.S.O., O.B.E., and Mr. R. E. Fleming have been appointed directors.

Chase National Bank—Mr. Leroy A. Wilson has been elected a member of the board of directors.

District Bank—*Alderley Edge:* Mr. S. S. Plant to be manager. *Manchester, Fallowfield:* Mr. T. Ryder, from Alderley Edge, to be manager. *Leek:* Mr. T. L. Fisher, from Penrith, to be manager. *Penrith:* Mr. W. Brown to be manager.

Martins Bank—*London, Oxford Circus:* Mr. Lees Evans, from Ardwick, Manchester, to be manager of this new branch; Mr. J. P. Brown, from London District Office, to be assistant manager. *Manchester—Trustee Dept.:* Mr. A. W. Seddon to be manager on Mr. W. G. Goodier's retirement; *Ardwick:* Mr. H. Woolfenden to be manager; *Cheetham:* Mr. F. Hurst to be manager on retirement of Mr. A. Young. *Plymouth:* Mr. F. H. Mathias, from Taunton, to be manager.

Midland Bank—Mr. S. R. Harmer, for nearly ten years manager of the Threadneedle Street branch, which was formerly the Head Office of the bank, has retired after nearly half a century in the bank's service. *Head Office:* Mr. K. A. Chambers, of Wrexham, and Mr. E. L. J. Terry, of Walton-on-Thames, to be superintendents of branches. *Bournemouth, Malmesbury Park:* Mr. G. W. W. Clarke to be manager of this branch, formerly under the same management as Lansdowne, Bournemouth. *Camberley:* Mr. A. C. Spincer to be manager of this new branch. *Dolgelley:* Mr. J. K. Davies, of Llandyssul, to be manager. *Leyland, Chapel Brow:* Mr. W. Wilkins to be manager of this branch, formerly under the same management as Fishergate, Preston. *Nailsworth:* Mr. G. G. Jackson to be manager on retirement of Mr. T. D. Ross. *Rhyl:* Mr. W. M. Jones, of Dolgelley, to be manager on retirement of Mr. D. G. Owen. *South Molton:* Mr. H. E. Chudley to be manager. *Tetbury:* Mr. N. G. Godwin to be manager of this branch, formerly under the same management as Malmesbury.

National Bank of India—Mr. N. W. Chisholm, London manager, to be deputy general manager. Mr. W. Kerr, inspector of branches, to be London manager.

North of Scotland Bank—*Glasgow, Chief Office:* Mr. D. Smith, assistant manager, to be manager on Mr. G. Lawrence's retirement. Mr. S. C. MacNab, from St. George's Cross branch, to be assistant manager. *Glasgow, St. George's Cross:* Mr. I. G. Dunbar, from Cullen, to be manager. *Cullen:* Mr. J. W. Noble, from Portsoy, to be manager. *Portsoy:* Mr. T. Robertson, from Dumfries, to be accountant. *Leith Walk:* Mr. G. A. Wright, from Head Office, to be manager in succession to the late Mr. J. Watt. Mr. A. M. Wallace to be an inspector of branches. *Edinburgh, Melville Street:* Mr. W. Menzies, from Alyth, to be manager on retirement of Mr. Mowat.

Union Bank of Scotland—*Glasgow, Head Office, Foreign Dept.:* Mr. S. Anderson, D.F.C., to be manager, on retirement of Mr. G. Blatch. *Aberdeen, Kittybrewster:* Mr. A. Reid to be manager, in succession to the late Mr. J. D. Taylor.

Yorkshire Penny Bank—The Rt. Hon. The Lord Harlech, K.G., G.C.M.G., a deputy chairman of the Midland Bank, Ltd., has been appointed a director.

Issuing Houses Association—Sir Brian Mountain, Bt., has been co-opted a member of the Executive Committee to fill the vacancy caused by the death of Sir Edward Mountain, Bt.

Publications

The Law of Trusts. Fourth Edition. By G. W. Keeton. (Pitman, 25s.) This is a revision of a standard work which commands the respect of the practitioner and has earned the gratitude of the student. In this quality it is exceptional, for there are few law books that achieve the clarity of Professor Keeton and yet provide a satisfactory work of reference. The current edition covers all the important cases up to the time of publication. Indeed, the only notable omission is the absence of a new preface. It is certain that readers would have appreciated a word (even one as brief as that in the third edition) indicating how the author viewed developments since the last edition. Bankers not already familiar with the work may regret, from their own particular standpoint, that Professor Keeton gives little specific guidance upon the problems that cause them most concern—notice of a breach of trust by a customer, and the constantly recurring problem arising from the delegation by trustees to one of their number of the signing of cheques and giving of other directions to the bank. Yet the underlying principles are indicated as well and as fully here as in any other book on the subject. Of particular interest to City readers is the full exposition of investment powers given to trustees by law in addition to those contained in the trust instrument; for, if the current demand for the extension of these powers is partially or wholly satisfied, a clear understanding of current limitations will be necessary to contemplate the scope of trust investment changes.

Banker and Customer. Fifth Edition. By S. Evelyn Thomas and Maurice Megrah. (Pitman, pp. 568, 25s.) The task of revising an established text book in a phase of post-war change inevitably puts authors or editors in a dilemma. Many reforms of both law and business intended at first as temporary expedients have come to stay, and in the immediate aftermath of war it is not easy to be sure which will endure and which vanish. But even where the distinction is clear, the reviser has the difficult choice of deciding whether to include matter that will be redundant in a year or two or, if he omits it, of laying himself open to the criticism that the omissions prevent the new edition from being a safe practical guide while the transition lasts. This revision of *Banker and Customer* prefers, on the whole, the former alternative. The book has become known as an examination textbook for banking students, although its place on the bookshelves of many branch banks indicates its use also as a practical guide. It is admittedly a matter of opinion whether a book which serves primarily these purposes, and does not pretend to be a law book, should aim at comprehensiveness in dealing with recent legal decisions. The revision does, of course, draw upon the decisions of recent years, but it makes no reference to two cases which ought surely to be regarded as of great importance both to the student and the practical banker. Any comment upon the question of presentation of documents under a letter of credit is incomplete without reference to *Rayner* v. *Hambros Bank* (1942, 59 T.L.R. 51)—a decision of much assistance to the banker, since it has enabled him to appraise the documents solely for their accordance with the terms of the letter of credit. Again, the pre-war case of *The Carpenters Company* v. *British Mutual Banking Company Limited* (1937, 53 T.L.R. 276) threw much light upon the protection (and vulnerability) of both the paying and collecting banker. Yet it remains true

that the virtue of this book lies in its comprehensiveness; like its earlier editions, it explores and explains the growing and diverse functions of the banker. Its immediate value is weakened by its dismissal, in a single-line footnote (on page 387), of the Courts (Emergency Powers) Acts and by the absence of any reference to other temporary or quasi-temporary law. But in these faults the authors are the victims of the particular circumstances in which they write. These are blemishes which time should cure; they should not mar, for the readers to whom the book is primarily addressed, the value of this welcome revision. F.R.R.

A Simple Guide to Negotiable Instruments and the Bills of Exchange Act. By Dudley Richardson. (Butterworth, 12s. 6d.) Every teacher of worth has his particular method of helping a student to grasp the subject, and in this truly simple guide the author has set forth his own method. Here is an essentially elementary guide, which makes no reference to decided cases—a simplification which involves obvious disadvantages. While some difficult problems such as the implications of a "fictitious payee" are very satisfactorily explained, other statements are open to criticism. For instance, on page 119 it is said that the wording of Section 60 as to payment "in the ordinary course of business" contrasts sharply with the payment "without negligence" required by Section 80. This fine distinction is not explained and may cause the student some bewilderment; it has perplexed the Court of Appeal. Again, the extensive subject of capacity to contract is all too briefly dismissed—in six lines of comment. But, as an introduction to the subject, the book will doubtless assist and, more important, may even attract a considerable number of students.

Publications Received

The Industrial Future of Great Britain. A verbatim collection, with an introduction by Paul Bareau of a comprehensive series of Lectures arranged by the University of London and the Institute of Bankers, and delivered in November 1947 to March 1948. The lecturers whose papers are reproduced were: Professor T. S. Ashton ("The Industrial Past"), Professor G. C. Allen ("The Impact of the War"), E. Stanley Tucker (Fuel and Power), Robert Shone (Iron and Steel), Anthony Hurd (Agriculture), Sir Jonah Walker-Smith (Building), M. R. Bonavia (Inland Transport), F. W. Paish ("Finance of Reconstruction"), Leslie Gamage (The Export Drive), The Hon. Leslie Runciman (Shipping), H. Haygarth Jackson (Textiles and Export), S. R. Dennison ("New Industrial Development and Export"), Albert Palache ("Long-Term Finance of Enterprise") and Professor P. Sargent Florence ("Industrial Change"). (Europa Publications, Ltd., pp. 208, price 15/-.)

Annual Register, A Review of Public Events at Home and Abroad for the year 1947, by Ivison S. Macadam, assisted by Hugh Latimer (Longmans, Green & Co., pp. 568.

Bank of Scotland, 1695-1945, by Charles A. Malcolm (R. & R. Clark, Ltd., pp. 322).

English Bank Accounting and its Historical Background, by H. C. F. Holgate (Staples Press, Ltd., pp. 148, price 17 6).

Money, 17th impression, by D. H. Robertson (James Nisbet & Co., Ltd., pp. 223, price 6/-).

National Income and Expenditure, by J. E. Meade and Richard Stone (Bowes and Bowes, pp. 45, price 2/6).

National Insurance and Social Service for Everyman, by Edmund R. Gibbs (Pen-in-Hand Publishing Co., Ltd., pp. 70, price 3/6).

Taxation, Trouble Spots in. Essays in the Philosophy of Taxation and other Public Finance Problems. By Harold M. Groves (Princeton University Press (London: Geoffrey Cumberlege), pp. 105, price 11/6).

The South African Financial Year Book, 1947-48, Investors' Manual and Cyclopædia of South African Public Companies, compiled and edited by E. Landsberg (R. Beerman Publishers (Pty.), Ltd., pp. 1128, price 50/-).

War Economics of Primary Producing Countries, by A. R. Prest (Cambridge University Press, pp. 308, price 21/-).

Banking Statistics

National Savings

(£ millions)

	Savings Certificates (net)	Defence Bonds (net)	Savings Banks (net)‡‡	Total Small
1944 IV ..	34.9	18.9	69.6	123.4
1945 I ..	44.3	19.8	108.7	172.8
II ..	28.1	18.1	71.5	117.7
III ..	12.1	30.3	99.7	142.1
IV ..	39.2	87.2	76.4	202.8
1946 I ..	13.2	62.0	120.7	195.9
II ..	1.0	95.9	36.2	133.1
III ..	– 1.2	13.4	35.6	47.8
IV ..	10.8	17.9	11.8	40.5
1947 I ..	39.7	20.4	27.0	87.1
II ..	40.3	– 3.7	– 19.6	17.0
III ..	2.7	– 19.8	2.9	– 14.2
IV ..	16.4	– 25.1	17.2	8.5
1948 I ..	29.4	– 29.9	54.6	54.1
II ..	– 2.3	– 31.2	10.3	– 23.2

	Savings Certificates (net)	Defence Bonds (net)	Savings Banks (net)‡‡	Total Small
1947 Mar. ..	25.4	5.1	– 2.6	27.9
April ..	27.7	2.4	– 0.5	29.6
May ..	13.6	– 1.5	– 8.7	3.4
June ..	– 1.0	– 4.6	– 10.4	– 16.0
July ..	1.1	– 7.7	– 9.0	– 15.6
Aug. ..	1.9	– 6.8	2.3	– 2.6
Sept. ..	– 0.3	– 5.3	9.6	4.0
Oct. ..	– 0.4	– 6.2	8.4	1.8
Nov. ..	6.9	– 8.8	12.9	11.0
Dec. ..	9.9	– 10.1	– 4.1	– 4.3
1948 Jan. ..	14.9	– 7.8	34.4	41.5
Feb. ..	9.2	– 10.6	14.3	12.9
Mar. ..	5.3	– 11.5	5.9	– 0.3
April ..	1.4	– 7.2	9.6	3.8
May ..	– 2.5	– 14.9	3.8	– 13.6
June ..	– 1.2	– 9.1	– 3.1	– 13.4

‡‡Including Release Benefit Accounts from July, 1945.

Ordinary Revenue and Expenditure

Year to Mar. 31:	Ord. Exp. £m.	Ord. Rev. £m.	Deficit £m.
1938 ..	898.1*	872.6	25.5*
1939 ..	1054.8*	927.3	127.5*
1940 ..	1809.7*	1049.2	760.5*
1941 ..	3867.2	1408.9	2458.3
1942 ..	4775.7	2074.1	2701.6
1943 ..	5623.2	2819.9	2803.3
1944 ..	5788.4	3038.5	2749.9
1945 ..	6057.8	3238.1	2819.7
1946 ..	5474.8	3284.5	2190.3
1947 ..	3910.3	3341.2	569.1
1948 ..	3187.1	3844.9	657.8§

By Quarters:	Ord. Exp. £m.	Ord. Rev. £m.	Deficit £m.
1945 I ..	1609.8	1246.7	362.9
II ..	1306.3	611.0	695.3
III ..	1443.7	750.5	693.2
IV ..	1386.2	667.8	718.4
1946 I ..	1337.4	1253.5	83.9
II ..	902.0	629.0	273.0
III ..	918.3	712.1	206.2
IV ..	861.1	738.6	122.5
1947 I ..	1228.9	1261.5	32.6§
II ..	619.8	840.1	220.3§
III ..	808.3	807.5	0.7
IV ..	736.1	761.5	25.4§
1948 I ..	1023.0	1435.8	412.8§
II ..	613.8	794.8	181.0§

* Allowing for loan expenditure. § Surplus.

Floating Debt

	July 18, 1947 £m.	June 30, 1948 £m.	July 9, 1948 £m.	July 16, 1948 £m.
Ways and Means Advances:				
Bank of England	—	—	—	12.8
Public Departments	328.9	270.5	282.3	296.5
Treasury Bills:				
Tender	2180.0	4817.3	2210.0	2210.0
Tap	2503.1		2625.9	2632.4
Treasury deposit receipts	1408.5	1468.0	1429.5	1429.5
	6420.5	6555.7	6547.7	6581.1

Britain's Gold and Dollar Reserves

(£ mns.)

Holdings at December 31, 1947			512
First quarter, 1948:			
Expenditure		− 147	
Receipts—			
South African Loan	80		
Drawn on U.S. credit	74		
Drawn on Canadian credit	11		
$ bought from International Monetary Fund	15		
$ bought from I.M.F. (India)	7		
	—	+ 187	
Net gain in quarter		+ 40	
Holdings at March 31, 1948			552
Second quarter, 1948:			
Expenditure		− 107	
Receipts—			
Drawn on Canadian credit	2		
$ bought from I.M.F. (India)	4		
First E.R.P. refund	22		
	—	+ 28	
Net loss in quarter		− 79	
Holdings at June 30, 1948			473

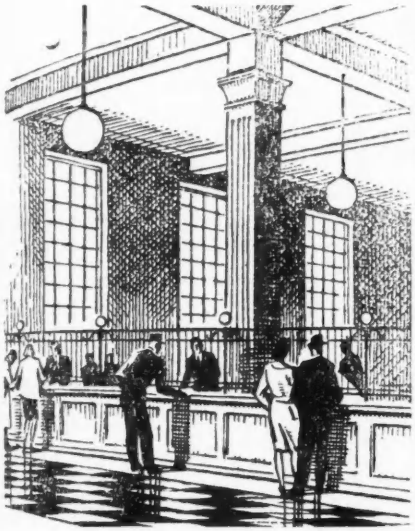
Treasury Deposit Receipts

Monthly*:	Raised £m.	Redeemed £m.	Outstanding £m.
1945 Aug. 25	290.0	237.0	2185.5§
Dec. 31	320.5	527.0	1636.5
1946 March 30	455.0	468.0	1559.0
June 30	190.0	282.5	1390.5
Sept. 30	500.0	368.0	1779.0
Dec. 31	131.0	197.0	1676.5
1947 March 31	543.0	594.5	1456.5
June 30	110.5	132.0	1442.0
Sept. 30	453.0	483.5	1292.5
Dec. 31	175.5	110.5	1402.5
1948 March 31	545.0	455.0	1291.0
April 24	405.0	346.5	1349.5
May 29	115.0	87.5	1377.0
June 30	269.0	178.0	1468.0

* Periods ended on last Saturday in each month, except at final month in each quarter.
§ Peak total.

1948 Week ended:	Raised	Redeemed	Net New Borrowing
Jan. 10	79.5	108.0	− 28.5
„ 17	—	38.5	− 38.5
„ 24	—	5.5	− 5.5
„ 31	—	0.5	− 0.5
Feb. 7	—	—	—
„ 14	—	55.0	− 55.0
„ 21	60.0	98.0	− 38.0
„ 28	—	35.5	− 35.5
Mar. 6	160.0	101.5	58.5
„ 13	120.0	140.0	− 20.0
„ 20	100.0	90.0	10.0
„ 27	80.0	80.0	—
Apr. 3	200.0	150.0	50.0
„ 10	255.0	219.5	35.5
„ 17	120.0	106.0	14.0
„ 24	30.0	21.0	9.0
May 1	—	3.0	− 3.0
„ 8	—	—	—
„ 15	20.0	40.0	− 20.0
„ 22	60.0	24.5	35.5
„ 29	35.0	20.0	15.0
June 5	70.0	37.0	33.0
„ 12	60.0	46.5	13.5
„ 19	80.0*	60.0	20.0
„ 26	50.0†	20.0§	30.0§
July 3	20.0	51.0§	− 31.0§
„ 10	41.0	79.5	− 38.5
„ 17	—	—	—

* Of which £60 mn. at 7 months. † Of which £30 mn. at 7 months.
§ Unofficial figure.



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BANK ADVANCES IN GREAT BRITAIN *

(LATEST QUARTERLY STATEMENTS)

Group	February† 1946 £000's	% of total	May 1947 £000's	% of total	August 1947 £000's	% of total	November 1947 £000's	% of total	February 1948 £000's	% of total	May 1948 £000's	% of total
1. Coal Mining	8,925	1.1	8,435	.8	7,689	.7	8,049	.7	8,405	.6	6,705	.5
2. Quarrying, etc.	2,328	.3	3,629	.3	4,099	.4	3,776	.3	3,548	.3	3,907	.3
3. Iron and Steel & Allied Trades	15,353	1.8	12,873	1.2	15,211	1.3	14,454	1.2	15,110	1.2	16,873	1.2
4. Non-ferrous Metals	1,978	.2	3,906	.4	2,888	.2	2,730	.2	2,653	.2	2,856	.2
5. Engineering, etc.	66,557	7.8	73,644	6.7	87,599	7.5	95,409	7.8	105,465	8.1	106,383	7.9
6. Shipping and Shipbuilding	10,318	1.2	10,555	1.0	19,114	1.6	19,966	1.6	18,525	1.4	17,822	1.3
7. Transport and Communications	9,570	1.1	13,316	1.2	11,944	1.0	12,118	1.0	13,162	1.0	14,262	1.0
8. Cotton	7,091	.8	5,215	.5	7,153	.6	6,346	.5	7,495	.6	7,454	.6
9. Wool	4,315	.5	10,167	.9	9,575	.8	10,910	.9	13,318	1.0	13,165	1.0
10. Other Textiles	10,232	1.2	13,713	1.2	15,719	1.3	16,771	1.4	21,781	1.7	23,296	1.7
11. Leather and Rubber	4,925	.6	6,995	.6	6,412	.5	6,964	.6	8,993	.7	10,055	.7
12. Chemicals	9,185	1.1	13,661	1.2	16,224	1.4	17,924	1.5	18,568	1.4	19,865	1.5
13. Agriculture and Fishing	66,489	7.8	84,146	7.7	95,662	8.2	95,903	7.9	101,730	7.7	111,492	8.3
14. Food, Drink, and Tobacco	57,230	6.8	87,238	8.0	68,459	5.8	79,981	6.6	88,189	6.8	89,512	6.6
15. Retail Trade	62,248	7.3	98,290	9.0	108,967	9.3	113,876	9.3	131,068	10.0	141,350	10.5
16. Entertainment	26,731	3.2	22,324	2.0	24,979	2.1	26,615	2.2	28,801	2.2	30,821	2.3
17. Builders and Contractors	38,770	4.6	56,545	5.2	57,556	4.9	58,347	4.8	60,682	4.7	61,431	4.5
18. Building Materials	4,988	.6	8,741	.8	10,316	.9	11,289	.9	12,234	.9	12,701	.9
19. Unclassifiable Industry and Trade	27,926	3.3	44,549	4.1	51,678	4.4	59,022	4.9	64,625	4.9	67,321	5.0
20. Local Government Authorities	78,696	9.3	76,032	6.9	76,771	6.5	83,384	6.8	86,642	6.6	78,961	5.8
21. Public Utilities (other than Transport)	7,285	.9	13,739	1.3	11,797	1.0	11,551	.9	13,915	1.1	26,436	2.0
22. Churches, Charities, Hospitals, etc.	10,369	1.2	15,590	1.4	17,422	1.5	18,151	1.5	18,373	1.4	18,770	1.4
23. Stockbrokers	4,081	.5	4,991	.5	4,956	.4	3,976	.3	5,113	.4	4,061	.3
24. Other financial	73,168	8.6	91,757	8.4	108,756	9.3	99,902	8.2	103,184	7.9	102,749	7.6
25. Personal and Professional	239,549	28.2	314,049	28.7	333,480	28.4	341,555	28.0	355,435	27.2	362,773	26.9
TOTALS	848,307	100.0	1,094,100	100.0	1,174,426	100.0	1,218,969	100.0	1,307,014	100.0	1,351,021	100.0

* Including all members of British Bankers' Association. † Date of first classification in new post-war series.

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THE UNION DISCOUNT COMPANY OF LONDON LIMITED

Telegrams: "Udisco, Stock London."

39 CORNHILL
LONDON E.C.3

Telephones: Mansion House 7941 (10 lines)

Capital and Reserve

£7,700,000

DIRECTORS

The Rt. Hon. Lord Kennet of the Dene, P.C. (*Chairman*)
David John Robarts (*Deputy Chairman*)
The Hon. Geoffrey C. Gibbs, C.M.G. — Sir Archibald Jamieson, K.B.E.
M. J. Babington Smith, C.B.E. — John Ivan Spens, O.B.E.

Treasury, Bank and First-Class Trade Bills Discounted

ALEXANDERS DISCOUNT COMPANY LIMITED

24 LOMBARD STREET, LONDON.

CAPITAL PAID UP - - £1,400,000
RESERVE FUND - - - £2,200,000

DIRECTORS:

THE RT. HON. LORD COLGRAIN, CHAIRMAN.

GEORGE CLEVERLY ALEXANDER — ROBERT ALEXANDER
SIR AUSTIN EDWARD HARRIS, K.B.E. — MARK DINELEY
SIR ERIC GORE BROWNE, D.S.O., O.B.E., A.D.C. — ALAN RUSSELL

MANAGER:
ANTONY MACNAGHTEN
DEPUTY MANAGER: CHARLES C. DAWKINS
ASSISTANT MANAGERS: E. P. B. BAGGALLAY, A. J. McLENNAN
SECRETARY: F. W. HATCHER

BANK AND FIRST CLASS TRADE BILLS DISCOUNTED
MONEY RECEIVED ON DEPOSIT.

STANDARD BANK OF SOUTH AFRICA

INCREASED ACTIVITY

THE one hundred and thirty-fifth ordinary general meeting of The Standard Bank of South Africa Limited was held on July 28 in London, the Rt. Hon. Lord Harlech, K.G., P.C., G.C.M.G., the chairman, presiding.

The following is an extract from his statement circulated with the report and accounts as at March 31, 1948:

The position disclosed in the balance sheet is most satisfactory. Most of the items again reflect a further pronounced increase in activity in all the territories in which we operate.

For several years prior to 1947 there had been a steep rise in the accumulation of cash balances by commercial and industrial concerns in Africa who had been unable to employ their resources in renewing stocks. In last year's report, however, it was noted that the pace of this movement had slackened. Traders' cash balances were used to buy stocks and our deposits increased by only £12 million, as against £35 million in the previous year. It then appeared likely that, as the readjustment to more normal conditions developed in the manufacturing countries of the world, the curve of our deposits would tend to flatten out, but, contrary to expectation, this item has again moved up steeply, the figure being approximately £50 million more than last year. This movement is some reflection of the very large monetary transfers to South Africa during the year.

Increasing quantities of goods from overseas have become available and in the payment for these imports traders' resources have been absorbed and a demand has arisen for loans. Development of local industries has also had the same effect upon the cash holdings of industrial concerns. That a considerable demand has arisen for financial assistance is evidenced by the rise that has taken place in the total amounts lent by the bank. "Advances to customers and other accounts" amounted to £53 million on March 31, 1947, and have now further increased by £14 million to £67 million.

Our position continues to be very liquid. While deposits have increased by £50 million, cash in hand and at call and short notice has improved by £34 million and reflects a ratio of almost 38 per cent. to deposit and current and other accounts, compared with a ratio of slightly more than 31 per cent. a year ago.

In the chairman's statement in the year 1946 it was noted that the total of the balance sheet had for the first time reached and exceeded the £200 million mark. By March 31, 1947, this figure had risen to £257 million. This year I have to record the passing of a further milestone in the history of the bank, for the sum of the items of the balance sheet has increased by £70 million, reaching £327 million. It is recommended that a final dividend of 9s. per share be paid, together with a bonus of 4s. per share, making a total of 20 per cent. for the year.

The report was adopted.

THE

ANGLO-PALESTINE BANK LTD

INCORPORATED 1902

6 Gracechurch Street, London, E.C.3

GENERAL MANAGEMENT - - TEL-AVIV

Branches :

TEL-AVIV, JAFFA, JERUSALEM, HAIFA, TIBERIAS, SAFAD, PETAH-TIKVAH, HEDERA, HADAR-HACARMEL, REHOVOTH, RISHON-LE-ZION, RAMATH GAN, NATHANYA

Affiliation : THE A.P.B. TRUST COMPANY LIMITED, TEL-AVIV